FINANCIALISATION, PROFITABILITY AND THE RISE OF HOUSEHOLD DEBT IN THE UNITED KINGDOM (1971 – 2015)

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ABSTRACT

Over the last fifty year, the trajectory of household debt has undergone several transformations in some jurisdictions, especially in advanced capitalist countries such as the United States and the United Kingdom, where household debt has risen to historically high levels. This phenomenon appeared in tandem with the end of Fordist salaries and the unresolved crisis of over-accumulation, leading to massive losses of profitability in manufacturing.

The central argument put forth in this thesis is that the rise of household debt has not been a spontaneous balancing act of the markets in general, but a concrete political strategy of capital to restore the collapsing rate of profit in the real economy by way of financial speculation, especially household debt speculation.

In this context, the study examines, in a historically and theoretically informed manner, the unequal relationship of capital-labour relations and how this has intensified since the collapse of the Bretton Woods system in 1971. This period saw the liberalisation of the exchange rate and credit was unleashed, empowering financial capital at the expense of labour, thereby placing financial services and banks at the centre of national and global political economies.

The analysis provides both a concrete historical and contemporary perspective into underlying factors, causes and consequences that surround the growth of household debt in the United Kingdom and the fictitious levels of debt-led economic growth experienced, not just in the United Kingdom, but in many other countries in the world.

Lastly, the empirical analysis into the rise of household debt reveals that the housing market and the financial market have often been identified to be the causal agents at the root of most financial crises. The ARDL method was employed to investigate the presence of cointegrating relationships between the individual regressor. The evidence confirms that declining rate of profit, end of high Fordist wages and house price movements contributed significantly to the rise of household debt in the United Kingdom.

The operation of financial institutions to extract rent and profits from over-indebted households, especially in the 1990s and 2000s, eventually blew up during the global financial crisis of 2007-08, the consequences of which are felt to the present day.

Keywords: Household debt, the rate of profit, capitalism, financialisaton, neoliberalism, financial crisis and the United Kingdom.

DECLARATION

I declare that whilst registered as a research degree student at this University, I have not been registered or enrolled student for another award at this University or of any other academic or professional institution and that no material contained in this thesis has been used in any other submission for an academic award. This thesis is the result of my own investigation, except where otherwise stated. Other sources used are acknowledged by explicit references. A bibliography is appended.

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DEDICATION

I dedicate this piece of work to El Shaddai, for his faithfulness in my life and to my wonderful parents, Mr and Mrs P.I. Alele.

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LIST OF ABBREVIATIONS

ADF:	Augmented Dickey Fuller
AIC:	Akaike Information Criterion
AMECO:	Annual Macro-Economic database
ARDL:	Autoregressive Distributed Lag
BIS:	Bank for International Settlements
BOE:	Bank of England
CVAR:	Co-integrated Vector Auto-regressive approach
ECM:	Error correction model
ERM:	European Exchange Rate Mechanism
EU:	European Union
FPE:	Final Prediction Error
FRED:	Federal Reserve Economic Data
GDP:	Gross Domestic Product
HQ:	Hannan-Quinn information criterion
IMF:	International Monetary Fund
OECD:	Organisation for Economic Co-operation and Development
ONA:	Office of National Accounts
ONS:	Office of National Statistics
OLS:	Ordinary Least Squares Regression approach
PP:	Philips and Perron
SC:	Schwarz Information Criterion
SVECM:	Structural Vector Equilibrium Correcting Model
UK:	United Kingdom
US:	United States of America
VECM:	Vector Error-Correction Model

PART ONE

INTRODUCTION AND LITERATURE REVIEW

CHAPTER ONE: INTRODUCTION

1.0 Introduction

1.1 General Overview

In the last half-century, the trajectory of household debt[1] has gone through several transformations in some jurisdictions, especially in advanced capitalist countries such as the United States and more specifically the United Kingdom, where household debt has risen to historically high levels. This phenomenon appeared in tandem with the end of Fordist salaries and the unresolved crisis of over-accumulation, resulting in massive losses of profitability in manufacturing.

The unsustainable increase in the level of household debt in advanced capitalist economies has often been a topical macroeconomic issue, with no universal consensus on the causes of the rise in the use of debt in these economies. A number of critical macroeconomic studies[2] have attempted to provide rationale as to the increase in household debt globally.

In the United Kingdom, the importance of household debt in relation to macroeconomic stability and financial resilience continues to be debated but with no congruence as to the real determinants of the rise in household debt. In the main, there have been contrasting reasons on the role that household debt plays in the economy since the over-accumulation crisis of the 1970s.

To this end, there have been different reasons alluded to by different schools of thought on the exact causes and determinants of the rise in household debt in advanced capitalist economies since the over-accumulation crisis of the 1970s. Some scholars provide divergent views on the underlying causes of household debt in the United Kingdom. Indeed, these divergent views and arguments within academia have led to a lack of unifying congruence on the determinants and causes of household debt in advanced capitalist economies.

[1] Household debt consists of credit card lending, overdrafts and non-secured loans and advances to individuals, less repayments of such lending. It usually comprises of both secured and unsecured lending.

[2] These macroeconomic determinants including low interest rates, consumption expenditures, low house prices and mortgage obligations, income inequality, debt-led consumption, falling wages and reduced welfare spending have been ascertained as the causes of household debt in advanced capitalist economies (see Barba and Pivetti (2009), Duesenberry (1949), Frank et al. (2014), Taylor (2009), Lapavitsas (2013), Stockhammer (2012, 2015).

In the first instance, supply-side scholars[3] have alluded to the critical role that financial markets play by granting access to households, which augurs well for the economy as it increases the rate of financial inclusivity and generates multiplier effects on the economy at large. This approach views access to credit in a low-interest rate era as a means of building wealth strengthened by the neoliberal policy of financial deregulation and liberalisation in the seventies. This led to increased competition by financial institutions in the first instance and the reduction in the cost of borrowing by households in the last instance.

In contrast, other scholars[4] have asserted that the continued unequal interplay between financial intermediaries and households foresees serious consequences for debt-financed households and the economy at large. The financial intermediaries, in a bid to maximise shareholder value, have consistently extended credit facilities to vulnerable households barely surviving at subsistence wage levels. This further deepens the income inequality gap and portends grave consequences for the financial stability financial stability[5] of the United Kingdom and other high income nations globally (Dutt 1984; Bhaduri et al., 2006; Hein and Schoder, 2011).

Additionally, this interplay is reinforced explicitly via the increasing integration and globalisation of finance via what came to be called financialisation[6] wherein non-financial corporation objectives have been altered materially with a rentier objective, leading to changes in aggregate demand, growth and income distribution for these vulnerable households in inherently unstable financial markets.

Though a plethora of empirical studies[7] may have provided insights as to the influences of the growth of household debts; there seems to be no unanimity as to the real causes and

[3] See Goldsmith (1969), McKinnon (1973) and Shaw (1973) and Levine (2005); and especially households' access via these studies Crotty (2005), Wray (2009), Rousseau and Wachtel (2011), Arcand et al. (2012), Cecchetti and Kharroubi (2012), Schularick and Taylor (2012), Jordà et al. (2013) for more discussion on the role of access to financial development in an economy.

[4] See Goldsmith (1969), McKinnon (1973) and Shaw (1973) and Levine (2005); and especially households' access via these studies Crotty (2005), Wray (2009), Rousseau and Wachtel (2011), Arcand et al. (2012), Cecchetti and Kharroubi (2012), Schularick and Taylor (2012), Jordà et al. (2013) for more discussion on the role of access to financial development in an economy.

[5] A view proposed by Minsky (1980), Minsky (1986a).

[6] See Hein and van Treeck (2010a), b; Hein (2008b), (2009), (2010); Stockhammer (2005), (2006), (2008); Dumenil and Levy (2004); Gly (2006); Palley (2017) and Epstein (2005) for a fuller discussion on Financialisation.

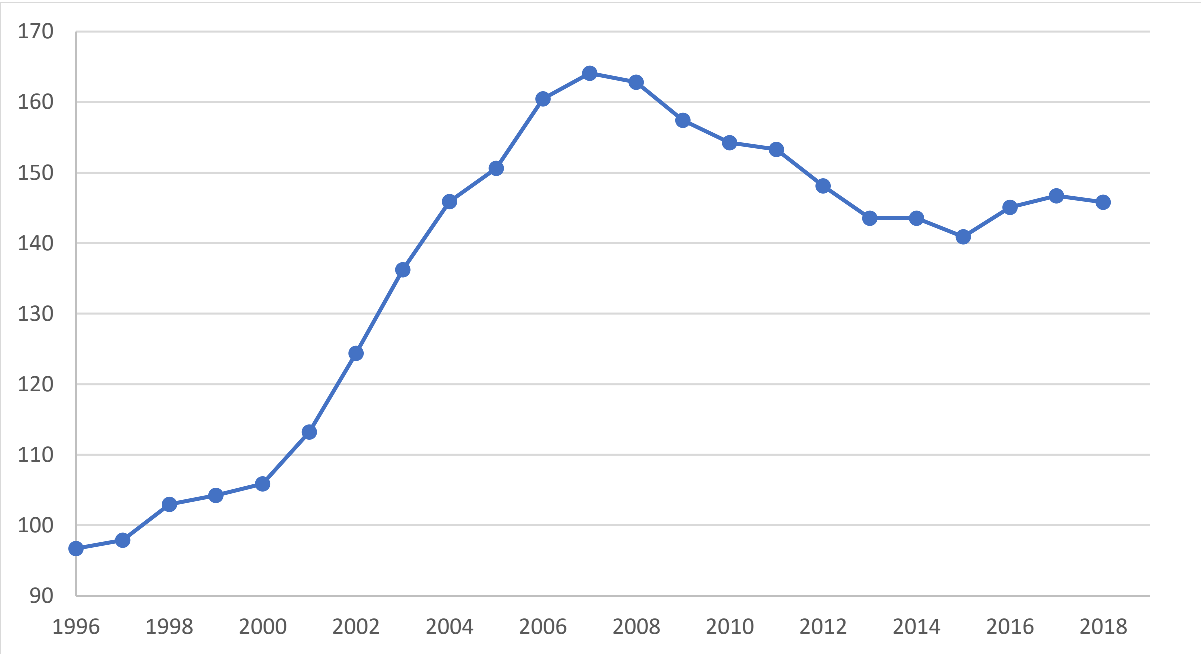
[7] Palley (2013A), Setterfield (2013), Rajan (2011), Palley (2002, 2017).

implications of the upward trajectory of household debt in the United Kingdom. These studies have only succeeded in investigating the rise of household debt in the short term, with no recourse as to the real historical causes of households employing debt-led financing for their consumption expenditure.

The core argument in this thesis is that the unsustainable rise in household debt in the United Kingdom has not resulted from the efficiency in free-market economics but rather capitalist ideology to restore its falling rate of profitability in the real economy through household debt speculation. That is, the end of the Fordist salaries and the unresolved crisis of over-accumulation led to the massive losses of profitability in the real sector.

Historically, in the United Kingdom, - the total household debt relative to household disposable income (represented by Figure 1.1 below) continue to rise at an astronomical rate hitting new threshold in the United Kingdom. Besides, the debt ratio rose from 103 per cent to 173 per cent between 1997 and 2007 compared to previous debt levels. This anomaly was as a result of the mismatch between the levels of household debt rising to 161 per cent relative to a 54 per cent increase in household income[8]

Figure 1: Household Debt as % of Net Disposable Income (1995 – 2017)



Source: OECD (2018), Household debt (indicator). doi: 10.1787/f03b6469-en (accessed on 30 September 2018)

[8] Office of National Accounts

To better understand the causes and determinants of the rise in household debt and the features that led to the global financial crisis in 2007/2008, this thesis outlines the origins of the global financial crisis as a structural crisis of over-accumulation of the 1970s alongside the collapsing rate of profit in the real productive sectors of the British economy.

That is, this thesis expounds on the origins of household debt as a response by capitalist economies to the declining rate of profit, restoring this to its pre-golden era levels through several platforms and macroeconomic policies. The golden era of capitalism was quite significant, with its high growth—low unemployment and guaranteed high wages providing the rapid expansion in advanced capitalist economies based on the institutionalised Keynesian demand management.

This economic policy ensured that there was a high share of profit and labour income between the management, labour unions and workers, with little or no labour struggles or strikes during this period until the resulting crisis in the 1960s which then in turn placed pressure on the share of profit eventually starting a decline to unacceptable levels.

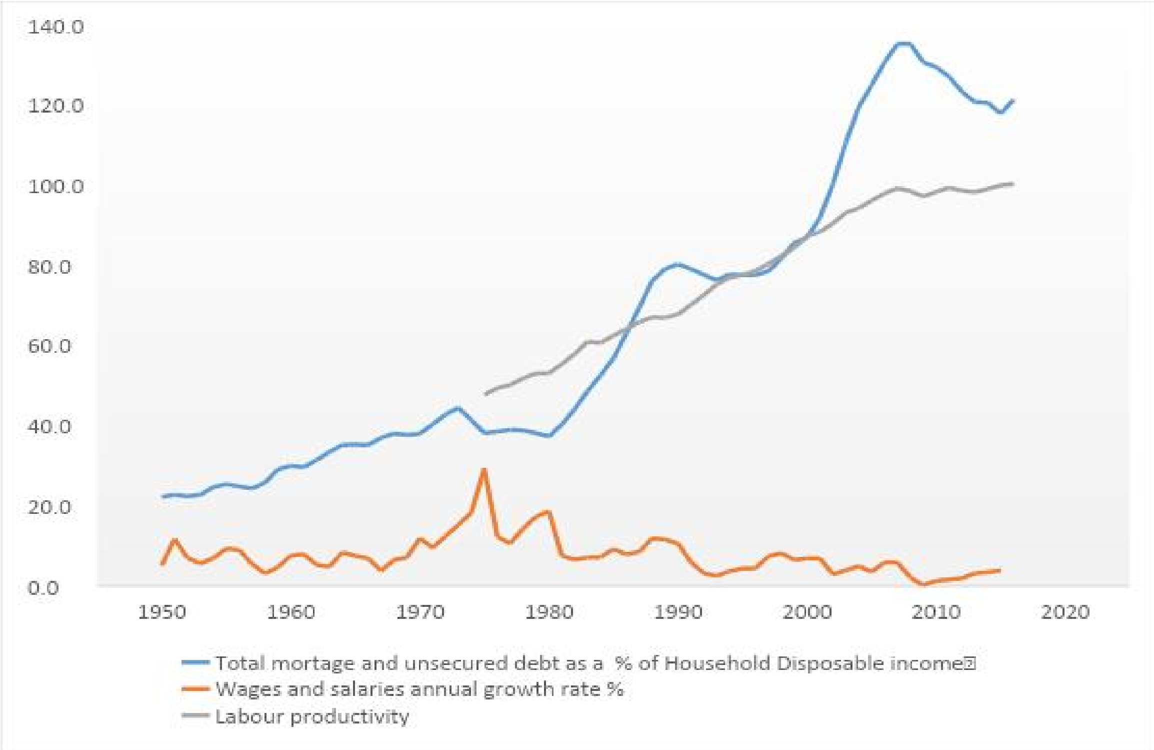
The declining rate of profit during this era not only put pressure on the capitalist sector but also on the government and the household sector as these capitalists were seeking different avenues and measures to earn comparable profit rates on their investment capital and also to stop the ensuing crisis.

Thus, the only avenue through which the rate of profit could be guaranteed was through the introduction of several combined measures, chiefly among which were the restrictions and attack on the labour share of income to revert the level of profit back to its golden era levels. Moreover, the below figure represents the trend between three core macroeconomic variables in the United Kingdom. That is, households were able to afford all expenditures by virtue of high Fordist - wages during the golden era and had little or no use for household debt compared to the neoliberal period of globalisation and financialisation. Between this period, household debt rose from about 30 per cent in 1980 to about 140 per cent in 2007 as the credit market was unleashed, with stagnant wages hovering around the 20 per cent to 23 per cent levels.

In contrast, the neoliberal period of globalisation and financialisation with its liberalised credit markets and floating exchange rate ensured that financial markets became hegemonic in these economies. It unleashed the use of credit facilities by households to purchase consumer durables as competition drove down the rate of profitability in the real sector in the United Kingdom.

Additionally, the continued pressure by other competitors in other climes also helped to instigate the downward spiral on the rate of profitability in the real sector as capitalists sought ways to revert back to the golden era of guaranteed economic prosperity in advanced capitalist economies.

Figure 2: Household Debt, Annual Wages & Labour Productivity (1950-2016)



Source: Household Debt from BoE Millennium of Data (Sheet A25), Wages and salaries annual growth rate%; KGQ2,QNA & "Labour productivity from July to September 2017". https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/articles/ukproductivityintroduction/julytoseptember2017 (accessed 12 September 2018)

In contrast, the golden era of capitalism with its high Fordist wages enabled these households to cater for their consumption needs without recourse to borrowing or the credit markets. That is, the continued expansion of financial capitalism and the failed attempts to plug the decline in profitability led to the speculation in household debt as a means of raising profit rates.

In general, restricting labour share of income was the only avenue through which the profit rate could be high enough for capitalists to earn commensurate profits on their investment portfolio. Therefore, the labour share was restricted as households were faced with low wages in comparison to the high Fordist wages that had allowed them to make consumption expenditures without recourse to borrowing from financial institutions.

In a bid to meet effective demand, the state initiated neoliberal financialisation and globalisation as a panacea for households to purchase consumer durables and to augment their wages. The use of household debt became part of a culture for workers to meet their consumption demands, as well as an avenue for financial institutions to speculate on household income as a way of earning their profit levels.

Within this context, this thesis provides a systematic explanation on the rise of household debt, specifically in the United Kingdom, following from the above historical challenges on the rate of profit and ability of capitalists to earn comparable levels of profit from real sector production.

Additionally, this thesis expounds on the above by proffering a systematic explanation of the rise of household debt as a function of the end of the high Fordist wages and the decline in the rate of profit of the manufacturing sector. That is, the underlying causes of the resort by households to debt or credit market is a function of the overall expansion of credit markets enamoured by the neoliberal policy of globalisation and financialisation.

In conclusion, the core argument in this thesis is that the unsustainable rise in household debt in the United Kingdom has not resulted from the efficiency in free-market economics but an ideology of capitalism to restore its falling rate of profitability in the real economy through household debt speculation. That is, the end of high Fordist salaries and the unresolved crisis of over-accumulation leading to the massive losses of profitability in the real sector.

1.2 Household Debt and Financial Crisis Theory

This thesis exclusively attempts to investigate the rise of household debt in the United Kingdom economy as a central theme in financialisation and neoliberal globalisation. It considers the impact that these processes have had on the economy and the steep rise in household debt speculation in the United Kingdom.

This is illustrated as a historical account of the various economic crises starting from the crisis of the Long Depression[9] (1873–1896), to the Great Depression (1920–1929) and lastly the unresolved crisis of over-accumulation and fall in profitability in the 1970s. Indeed, this thesis argues that the rise in household debt in the United Kingdom was a function of the end of the Fordist high wages and the unresolved crisis of over-accumulation. The Long Depression of the nineteenth century in the United Kingdom occurred as a result of the downward pressures on world production and prices of goods in capitalist economies.

Roberts highlighted in his book "The Long Depression" that the depression of an epoch provokes both a social and economic response to the impasse in material production in the first instance and an imperialist competition between capitalist nations in the last instance. Capitalism transforms itself in various forms and shapes to overcome every slump and downturn in order to raise the rate of profitability of capital over time (Roberts 2016, p. 5-6).

The Great Depression~~,~~ on the other hand, was a direct result of the substantial decline in bank lending; preceded by the bank runs and dooms experienced in the banking sector between 1929 and the mid-1930s.

Bernanke (1983), argued that the main determinants of the Great Depression were: the restrictive regulatory environment that limited bank branching; financial panics; lack of trusts in the small US banks by depositors; series of bank runs, and debtor insolvencies, along with the increased cost of credit intermediation which further repressed any economic activity. The set of bank runs and failures not only restricted investment opportunities but also stifled any productive activity that could have increased economic activity.

[9] A depression according to Roberts (2016) refers to a period wherein "economies are growing at well below their previous rate of output (in total and per capita) and below their long-term average. It also means that levels of employment and investment are well below those peaks and below long-term averages. Above all, it means that the profitability of the capitalist sectors in economies remain, by and large, lower than levels before the start of the depression.

The Long Depression will be ended by a conjunction of economic outcomes (slump, technological revolution, and a change of economic cycle) or by political action to end or replace the capitalist mode of production. There is no permanent crisis. There is always resolution and new contradictions in the dialectics of history" (Roberts 2016, p. 4).

The resulting crisis was a function of the pessimism in the financial markets, which spread quickly to other areas and triggered declines in aggregate demand and creating the most severe banking crisis and economic downturn ever experienced in global financial markets. It is pertinent to state that crises happen because of the influences and changes to the social relations of capitalist production with unique trigger points and signals resulting in a contradiction between the forces of production and the ability of capitalist relations to ensure profitability and stability.

Within the history of capitalism, the role that credit and debt has played in the economy cannot be under-emphasised, especially in the era of globalised and liberalised financial markets. This role has seen the prominence of capital and profitability through series of financial innovations and debt led economic growth in these advanced capitalist economies. The continuous rise in household debt and the resulting collapse of the credit market became the platform on which the present crisis of over-accumulation and fall in the rate of profit has blossomed (Roberts 2016, p. 6-7).

Thus, the distinctive credit crisis of 2007/2008 was recorded as one of the most severe and profound contemporary economic crises in history, described by Shaikh is comparable to the Great Crash of the 1930s in its level of severity and impact on households, firms and government globally. The origins and effects of this unprecedented crisis had a massive impact – initially in the housing markets and the multiplier effect seen in other sectors, primarily in the households of advanced capitalist economies (Shaikh 2010, p.44).

Bordo et al. (2001) argue that from early as the late nineteenth century financial crises have occurred repeatedly in advanced capitalist economies and continue to occur at regular intervals, with a record high of more than 200 crises from 1873 to 1997.

Capitalism can be identified as synonymous to crises, and each episode of a capitalist crisis has its distinctive features and triggers within an economy such that the crises are analysed according to their characteristics and prevalence in the economy. A detailed account of the type, features, and attributes of crises are explained in section 1.2 and more specifically the events leading up to the structural crisis of over-accumulation and the responses by the United States and United Kingdom governments.

To this end, the roots of the present crisis are represented and founded in the relative economic decline of the Anglo-American economies of the late 1960s and early 1970s, and the policy responses of these two global economies in arresting the declines in their economies through the application of neoliberal policies of globalisation and liberalisation of financial markets.

According to the IMF (2009), financial crisis in this context refers to various episodes and events during which there is widespread disruption to financial institutions and the functioning of financial markets. On the other hand, Mishkin (1996) considers a financial crisis to be ‘a nonlinear disruption to financial markets in which adverse selection and moral hazard problems become much worse so that financial markets are unable to efficiently channel funds to those who have the most productive investment opportunities.

In contrast, Reinhart and Kaminsky (1998) identify financial crises as the presence or existence of contractions in economic activity followed by cycles of prolonged boom, driven by high levels of credit expansion and capital inflow exclusively in the sphere of circulation with no support by high levels of investments or high profitability in the real sector. Arguably, the boom preceding the crisis is not driven by high investment levels or high profitability in manufacturing but by financial activity and other factors such as credit expansion which eventually exacerbates a financial crisis.

Thus, the three features of financial crises in major advanced capitalist economies hinge on the financial sector and operations that have inherently expanded its profitability during production. Therefore, the themes in capitalist developments are first realised in the production space, and as production expands, finance also develops and ultimately becomes the platform on which productivity is hinged to deliver high-profit levels (Marx 1904, p.123).

Meanwhile, financial crises are often the result of a fall in economic output (GDP) which is then extended from the financial market to the realm of production. Thus, the realisation of a financial crisis is often first triggered in the financial markets within two consecutive quarters of contraction in the real gross domestic product of an economy (Claessens et al., 2010 p. 110).

Historically, financial crises often originate in the sphere of production coupled by a general fall in profitability and increased speculation in financial assets. However, this thesis argues that the declining rate of profitability in the manufacturing sector, and the subsequent shift in capitalism to financial speculation to restore these profit levels, is the link to understanding the present crisis in advanced capitalist economies, particularly in relation to household debt speculation.

Brenner (2009) posits that the crisis originated in the United States and by extension to the housing market in the United Kingdom, where a high number of defaulters in the housing markets were unable to pay their debt obligations in the required timescales. The implication and consequence for the global financial system was the resulting financial crisis that engulfed the financial markets in the summer of 2007/2008.

More importantly, the low rate of profit manifests itself in the occurrences of household defaults encapsulated by the integral role that the credit system plays in these economies. The Marxist theory of crisis, as explained by Marx in Volume 1 of Capital, is undoubtedly rooted in the historical tendencies of capitalist development as a contradiction between the tendency to accumulate and develop within material production ad infinitum while also displacing productive labour and expanding the reserve army of labour.

Marx's argument on the role of credit in crisis indicates that '[i]n a system of production, where the entire continuity of the reproduction process rests upon credit, a crisis must obviously occur… when credit ceases, and only cash payments have validity. At first glance, therefore, the whole crisis seems to be merely a credit and money crisis' (Marx 2010, p. 489).

Thus, crises are often triggered when the growth rate of accumulation is higher than the growth rate of consumption reflected by the contradictions in the capitalist mode of development. This unequal relationship eventually highlights the tendency of capital to dominate the sphere of production on the one hand and finally reduce the wages paid out to the working class.

The concept of crisis is summed up as a tendency which is inherent in the capital accumulation process and attached to persistent class struggles in different epochal periods. As explained above, crises are part of capitalist developments and are linked to the contradictions within capitalist accumulation which occur in various forms and shapes.

Carchedi & Roberts (2013) argue that capitalism does not follow a straight line, but its movement reverts to a recurrent cycle of "booms and busts" that destroys a large proportion of the value created in some advanced capitalist economies, such as the United States. A good example being the massive fall in US value and prosperity in the Long Depression (1873–1896) and the Great Depression (1920–1929).

Carchedi & Roberts (2013) further posit that the core argument to understanding the movement and trigger points in the cycles of booms and slumps can be identified in the movement in the rate of profit.

Thus, the movement of the rate of profit is a critical component of capitalist economies, and its features are central to the understanding of crises and profit determination during the process of capitalist production and capital accumulation.

On this subject, Weisskopf (1979) argues that the rate of profit is a core determinant of profit expectations in production centres and that capitalists are engaged in these centres only as long as it brings a commensurate return on their investments. Weisskopf further argues that the level of investment and profitability is a core determinant in the level of aggregate output in the economy.

Marx (1987) posits that the driving force of capitalism is its continual quest for surplus value in the early stage of capitalism wherein it extracts absolute surplus by increasing the labour time on the shop floor at constant wages. The corollary to this is that at a later stage, it expropriates surplus value by reducing the social labour time and holding the length or timing of work constant. In both periods, it has succeeded in ensuring an unequal relationship between factors of production such that capital dominates labour.

Additionally, the quest for capital to dominate all factors of production results in a struggle between labour and capital with the underlying theme being the rate of profit. This rate of profit falls when the organic composition of capital rises instigating a fall in the rate at which labour is exploited relative to the capital outlay. If the rate of surplus value holds constant, then the rise in the composition of capital will lead to a fall in the rate of profit. “The progressive tendency of the general rate of profit to fall is, therefore, just an expression peculiar to the capitalist mode of production of the progressive development of the social productivity of labour” (Marx, 1984b, p. 213).

The tendency for the rate of profit to fall as reiterated by Marx is a law that revolves around tendencies and countertendencies. The tendency is such that as firms import new technology to speed up the production process, machinery replaces available labour supply which automatically increases the organic composition of capital in the first instance and the rate of profit falls subsequently (Roberts 2016, p. 24-27).

Arguably, the capitalist search for increased profitability has a corresponding influence over labour productivity as the capitalists adopt a strategy that reduces its costs in both capital investments and labour savings in order to spur its profitability.

On the other hand, the existence of counter-tendencies to Marx’s law of the general tendency for the organic composition to rise relates to the temporary occurrences of some initiatives that reverse the trend for the tendency of the rate of profit to fall.

Marx argues that the following five counter-tendencies exist which are: the increasing intensity of exploitation of labour, the relative cheapening of the elements of constant capital, the deviation of the wage rate from the value of labour power, the existence and increase of a relative surplus population; and lastly, the cheapening of consumption and capital goods through imports. The impact of the tendencies and countertendencies will be evaluated in subsequent sections in chapter 2 with detailed explanations on the various theories of crises and rate of profitability.

The Role of Credit in Capitalist Crises

Historically, the growth of credit markets and fictitious capital or, as Marx tagged it, speculative investment in stocks, bonds, and other forms of money assets, have always played a critical role in capitalist crises. As the real sector became unprofitable, the speculative trading in derivatives, equities, swaps and options also became the platform on which capitalism converges to extract profit.

The declining rate of profitability in the real sector, especially the manufacturing sector, promotes the quest for speculation in other sectors of the economy, especially in the financial sector. The capitalists seek investment that earns commensurate profit level outside of the sphere of production with emphasis on financial markets. Capitalists shift their efforts to the trading of financial instruments as a way to compensate and ameliorate the downward pressure in the rate of profit.

The general downward pressure in the rate of profit in the economy results in the movement of funds away from manufacturing and into the financial markets. This results in the overstocking of funds in the financial markets with no outlets or productive centres wherein these funds can be invested to reap commensurate returns on investments. The speculative trading of these financial instruments results in the price appreciation of these assets, fuelled by the increases in demand by capitalists.

Within the economy, a simultaneous impulse by other capitalists to earn commensurate returns in the financial instruments drives up the prices of these assets and eventually lights up a bubble in the financial markets.

In recent times, the increased level of speculation in financial markets, -specifically the housing market, has seen a rise in the level of households having of households' easy access to credit along with a propensity to overspend in an era laden with unlimited credit accounts. The implication is that the tendency to overspend is ignited by the supply of credit cards which increases a worker's loan obligations to the financial institutions.

The underlying theme in crises theory emanating from the credit markets is the falling rate of profit and the departure by capitalists from real production in order to seek a commensurate rate of profit for their investment in the financial markets. Thus, the inflation of price in the markets outside of the realm of manufacturing fails to sustain the rate of profit and the capitalist economy.

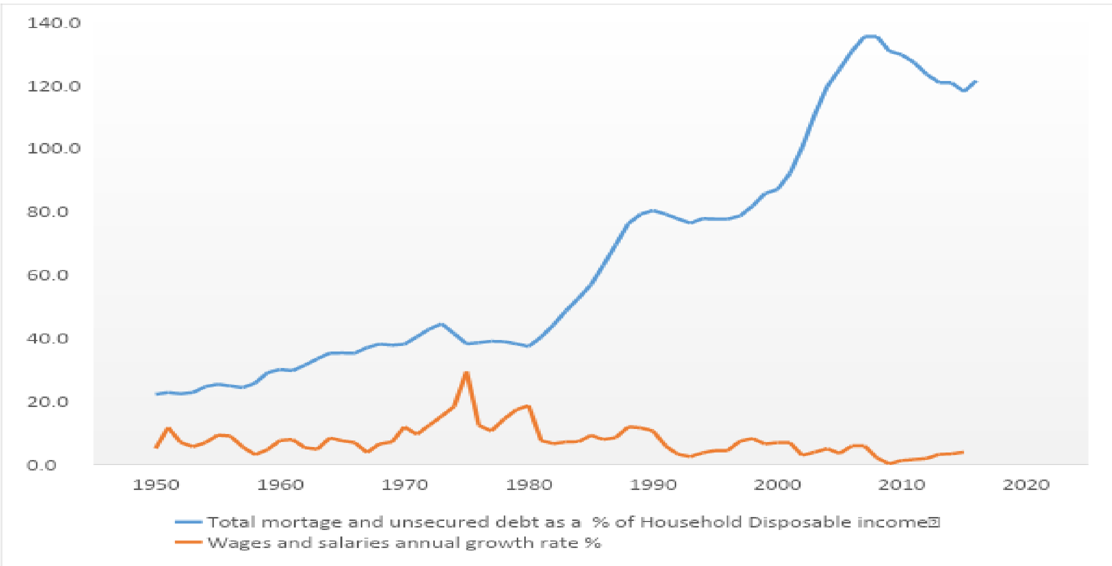
1.3 Historical Account of the present Financial Crisis

Following on from the previous section, this section looks at the historical context of the rise of household debt in the United Kingdom by providing the underlying causes and roots of the global financial crisis that hit the North Atlantic in the 2007/2008 period. It investigates the implications of the contradictions inherent to the capital accumulation process that have inhibited real sector productivity and by extension led households to increased indebtedness in the United Kingdom.

This section provides a historical account of the processes that led to the end of the Golden age of Capitalism[10] and the effects on households and economies in both the United Kingdom and the United States. Specifically, the point of departure in the present crisis from other crises is the unresolved crisis of over-accumulation that has led to massive losses in the profitability of the manufacturing sector in the United Kingdom.

The figure below identifies how the trend of household debt during the golden era of capitalism was very low when compared to the era of neoliberal financialisation. It summarises the arguments in this thesis relating to the role that neoliberal expansion in financial markets has had on households that had no reasons to incur loans to spur their consumption during the golden age of capitalism.

Figure 3: Secured & Unsecured Debt as % of Household Income in the UK (1950 - 2016)



[10] This refers to a period between 1945 to late 1960 in advanced capitalist economies with the main features of rapid economic growth, high profitability, strong growth rates, high wages and increased production leading to global trades and the increasing rate of capital accumulation in these economies.

Source: Household Debt from BoE Millennium of Data (Sheet A25) and the annual growth of Wages and Salaries annual growth rate%; Dataset ID: KGQ2, QNA

These households were able to maintain their consumption levels during the golden age because of the access to guaranteed Fordist high wages, compared to the era of liberalisation of credit markets where household speculation took a lead role in the quest to maintain the rate of profit.

In context, the end of the golden age of capitalism happened as a result of a number of factors namely~~:~~ increased international competition from other regions in the post-World War II era; the purchase of gold by the French from the United States; the massive high cost of the Vietnamese war, class struggles, and the rise of the United States' external debt changed the face of the monetary and financial systems in advanced capitalist economies.

Also, the decline in the manufacturing labour markets, which caused a massive increase in the unemployment levels and by extension increased social welfare programs in both the United States and the United Kingdom. A combination of the above factors led to the high inflation and low growth (often referred to as Stagflation) experienced in the Anglo-American economies and other capitalist economies of the world at that time (Fouskas & Gokay, 2012, p.46).

The end of high Fordist wages and the unresolved structural crisis of over-accumulation also led to various transformations within the financial markets. This came to the fore as financial institutions resorted to alleviate the massive losses in the profitability of the manufacturing sectors via household debt speculation in the United Kingdom.

Keynes asserts that "Speculators may do no harm as bubbles on a steady stream of enterprise. However, the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done. The measure of success attained by Wall Street, regarded as an institution of which the social purpose is to direct new investment into the most profitable channels in terms of future yield, cannot be claimed as one of the outstanding triumphs of *laissez-faire* capitalism which is not surprising, if I am right in thinking that the best brains of Wall Street have been in fact directed towards a different object." (Keynes 1936, p.159).

- **Financial Crisis**

Financial crisis has occurred in history at various times and epochs, but it is pertinent to distinguish between the various crises and the underlying historical content of each crisis. The present crisis is distinctly different from the previous capitalist mode of accumulation in production and instead occurs as a result of the shifts in the capitalist mode of accumulation achieved via the "financialisation of personal income" or household debt speculation in Anglo-American economies (Lapavitsas 2013, p.16).

A good starting point in understanding the present crisis is to provide an exegesis on the relationship between the rise of household debt as a function of the globalisation/financialisation project and the decline in the rate of profitability in the manufacturing sector. Financialisation in this context was an event in history that can bedirectly linked to the liberalisation of the financial markets that unleashed the credit markets in the 1960s and early 1970s.

Fouskas and Gokay (2012) argue that the collapse of the Bretton Woods[11] system was a policy response to the pressure exerted on the dollar by the other advanced capitalist economies, rather than a breakdown in the dollar-gold parity. They assert that the departure from the fixed exchange rate regime became the platform on which speculative activities by individuals, banks and other financial institutions initiated new forms of money circulation and profiteering.

Thus, the period of financialisation not only instituted a new level of speculative activities but was also witness to a higher level of profiteering from such activities; higher than the profitability in material production. This is evidenced by the rate of profit in the financial market and the housing markets, not emanating from the production of use-values but in the sphere of circulation.

The concept of rate of profit as asserted by Fouskas and Gokay (2012), represents some surplus value expressed in the social relations of production and exchange, such that labour is disposed from their labour power for the surplus value to be extracted during the process of material production. The rate of profit in this context is defined as any form of surplus value

[11] The main features of the Bretton Woods System include the fixing of exchange rates which are only adjustable in the long run; par value for each country's currency would be expressed in terms of USD whilst USD would be expressed in terms of gold and convertible to gold or vice versa; flexibility to propose par value changes in cases of fundamental disequilibrium; members assign quotas and contribution to the pool is quota based; and lastly, the IMF could provide or exercise controls they regard as necessary to regulate international capital movements but not in a way to restrict payments for current transactions.

or average percentage return on capital employed in material production such as manufacturing in the real sector of an economy.

Thus, the current crisis of financialisation and the response by Anglo-American economies to attempt to regain the same high economic growth rate and profitability that was achieved during the era of the golden age of capitalism saw these economies resolve to speculate on the financial markets.

The decline in the manufacturing sector and the unresolved crisis of over-accumulation in the 1970s have often been argued to be linked to the challenges of the labour movement and high wages, even though the contradictions in neoliberalism and the liberalised financial market have not been able to restore the profitability levels to the highs of 1945, in advanced capitalist economies.

Brenner argues that concentration or accumulation of finance capital often leads to bubbles and perceptions of profitability and economic growth, even though it always precipitates into cycles of boom and bust in these economies. The argument is that subprime lending and easy access to credits was encouraged by governments in a bid to increase the profit level sought by capitalists in their investment portfolio. This was touted as an avenue to increase the overall profit levels whilst at the same time generating high economic growth in these economies in order to increase the profitability of private property owners and generate high economic growth (Brenner 1998, p. 26).

Additionally, the impact of financialisation and its damaging influence on an economy can be summed up by Keynes' statement in *General Theory* that "Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation."

Fouskas & Gokay argue that the continuous domination of capital in advanced capitalist economies such as the United States and the United Kingdom, during the late 1970s, was as a result of class relations and the process of circulation in which capital dominates after a period of over-accumulation crisis in the real economy (Fouskas & Gokay 2012, p. 23).

Thus, the underlying theme in understanding of the present crisis is in the long-term historical perspective of the over-accumulation crisis that originated in the 1970s, as well as the precipitate causes of the inherent contradictions in the globalisation/financialisation policy of Anglo-American governments.

The historical long-term origins and the contradictions in capitalism are investigated first from the period of the great depression in the 1930s until the end of the Second World War, and by extension to the period of the golden age of capitalism. Generally, one can analyse financial capitalism up to the structural crisis of over-accumulation and the inefficiency of the neoliberal policy in order to match the growth rate of the golden age of the capitalism period.

Each crisis of capitalism as always been unique, with peculiar trigger points and characteristics within the macro-economy. The present financial crisis is different from the financial panic of 1873 which originated from the collapse of the Vienna stock market during the fifth month of 1873, and the Great Depression in the 1930s which was triggered by financial speculation and inflated stock prices and lastly, the crisis of profitability in 1965 (Roberts 2016, p. 27).

Lloyd-Jones, R. and Lewis, M., (2014) support this view of a period of economic decline in the UK, with the British economy undergoing a slowdown in its growth of industrial production and falls in the investment levels in capitalist production. The rate of fall in investment precipitated a chain reaction with surplus value in British industry declining at a faster rate than its growth rate. In essence, the United Kingdom's share of world trade in material production fell from 37 per cent in 1883 to 25 per cent in 1913, whilst the United States share rose by almost 73 per cent within the same period.

Thus, the crisis has its proximate causes in the realm of production, even though it was triggered and magnified by the financial crisis in the sphere of accumulation. Arguably, as the rate of surplus value declined, the profitability levels also fell relative to the investment levels in the British economy.

Lewis argues that the profit squeeze in the global economy, which was as a result of the inter-capitalist competition in industrial production, was also attributable to the decline of profit in the United Kingdom, even though the wages of the labour class was gradually increased during this period (Roberts 2016, p. 40).

Pax Britannica enforced British colonial rule and dominance in world power, as Britain became the largest economy in the world with its global dominance in world trade, military supplies, manufacturing and industrial innovation until its decline and the shift of global power to the United States when the war broke out in 1914. The fall in the British economy began in the decades leading up to World War 1, with the rate of profit falling as industrial production plunged and losses in capital investment which led to the resulting low profitability in world economy.

On the other hand, the Great Depression which originated in 1929 in the United States and lasted until the beginning of the Second World War - was as a result of a Federal Reserve attempt at curbing financial speculation, on the stock exchange by deciding to raise interest rates and spur economic growth. The financial crash of this era had a reverberating impact on other sectors of the economy, with high unemployment in the farming sector, a fall in commodity prices, wage stagnation and a decline in the US economy.

The pertinent challenge during this period was the gradual fall in the real economy motivated by the persistent contraction in industrial production and the high rate of unemployment. This was further exacerbated by debtors' dire financial situations as they defaulted on their loan obligations and panic from depositors trying to withdraw their deposits from the banks; all of which led to the banking runs and eventually the banking crisis in the 1930s.

This meant that,the profitability levels in industrial production had been falling from 1924 as profits were diverted to the financial centres in the form of speculative derivative investments and other financial products, at the expense of real production. The profitability levels only returned in the United States during the Second World War, with the government policy on investment changing via the purchase of government bonds, rationing and increased taxation while restricting spending, which in turn paid for the war effort expenditures in the United States.

The end of World War II not only established the hegemony of the United States' capitalism but also became the platform on which Pax Americana was birthed. This was as a result of a type of uneven development, as coined by Brenner, which provided some form of assurance on the US political economy and the emergence of the golden age of capitalism. This was achieved by large corporations and international banks looking for profitable outlets in the international global market for their investment portfolios whilst at the same time providing an export market for local US manufacturers (Fouskas & Gokay, 2012).

- **The Golden Age of Capitalism**

The era of the golden age of capitalism was undoubtedly impressive, with high growth and productivity levels, owing to the restructuring of the capitalist mode of development which birthed the economic miracles of the golden 50s and 60s in global economic systems. The United States became the epicentre of the capitalist world, dominating global systems and overthrowing the United Kingdom with the Bretton Woods system where the dollar was the world's reserve currency.

The golden age, evidenced by Table 1, was a period of fast economic growth and, productivity levels, along with capital stock and volume net capital outflows in Western Europe incomparable to any other period in history. It is pertinent to state that the golden age of capitalism had features and characteristics of a class accord between labour and capital such that capital investments received commensurate returns and high levels of profitability and output. Indeed, the gross domestic product, the volume of export and capital stock in Western Europe during this epoch was higher than any other period in history.

Table 1. Annual Average Compound Growth Rate of Western Economies* from 1870 -1996**

Development Phases	Gross Domestic Product	Capital Stock	Volume of Exports
(1870 – 1913)	2.2	2.9	3.2
(1913 – 1950)	1.8	1.7	0.7
(1950 – 1973)	4.6	5.5	8.6
(1973 – 1996)	1.9	3.9[1]	4.5

Sources: Adapted from Glyn et.al (1990), Maddsion (1997).
*** The 12 West European economies are Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland and the United Kingdom

The state encouraged the proliferation of labour unions with the added advantage of ensuring that there were constant wage rises relative to the productivity gains of the entire industry. That is, as material production increased in value, the returns from these productive bases accounted for the high wages in the economy which helped to sustain consumption during the golden fifties and silver sixties.

The automobile industry was mainly a beacon of high growth and productivity, ensuring the highest rate of profitability in the economy. In the advanced capitalist economies, the productivity deals between the state and the labour unions ensured rapid economic growth, as the working class were armed with technical innovations from the war efforts and with Taylorism management principles and protocols in the Ford factories across these economies - especially in the United States and the United Kingdom.

In the United Kingdom, the economy benefitted from the economic boom and growth in Western Europe, encouraged by the availability of cheap labour from the war efforts meant that these economies were growing quickly and catching up with the more advanced economies in the continent.

These economies, by virtue of their speed of growth, increased the levels of competition and exports comparable to that of the United States. The economic growth and rapid accumulation of capital was further enhanced by low inflation levels in the global economy, alongside increased free trade and reduced trade tariffs between competing countries.

The United Kingdom experienced a post-war economic boom via the economic policies of the Beveridge's Welfare scheme with a robust welfare state that ensured that the economy was at near full employment. The macroeconomic performance of Britain in this epoch was indeed miraculous although it was interrupted by minor but frequent episodes of downturns and cycles of busts. This period saw the advancement of the Keynesian Fordist structure of accumulation (effective demand management) which generated robust economic growth and outstanding output in all capitalist enclaves globally.

The Keynesian policy of active demand management resulted in income redistribution through a myriad of programs which include social wage (or the Welfare state) to curb any excesses of unemployment in the economy which also supported the high consumption rate and economic growth in the Anglo-American economies. In other words, the production of consumer products supported by a state policy of increasing consumption through the mass production and mass consumption policies of the post-war economy.

Thus, as businesses continue to produce goods for mass consumption, the profit rate is sustained by the aggregate demand from three major areas in the economy: the workers who receive high wages; the unemployed who receive social wages and lastly, the potentially unemployed who are between jobs. The government in this instance ensures that it facilitates the national income by ensuring that the tax revenues from businesses and workers are reinvested back into the economy in the form of investments in infrastructures and the welfare state.

Eichengreen (2007) argues that the age of capitalism spanned a period of 25 "*golden years"* because of the interplay of forces and consistent consultation between firms and employers of labour, trade unions, government and capitalists in all areas of economic activity, thus balancing the objectives of both capital and labour in the economy.

Glyn et al. (1990) posit that the golden age of capitalism was maximised by-influences and friendly relationships between the private sector, labour unions, states and international macroeconomic institutions which worked to maintain trade flows, wages, share and rate of profit, and capital flows. This, in turn, ensured that growth was perpetuated in capitalist economies and other peripheries via high productivity and capital outlay.

Furthermore, the war had such a debilitating effect on other economies within Europe and Asia that the recovery of these economies was fundamentally attached to the United States providing substantial economic aids, for example in exchange for imports from Japan and Germany, to counter the impact of dollar shortages. The dollar glut problem occurred because of the dollar accumulation in Europe and Asia, which was due to the massive foreign direct investment from the US manufacturing sector and its efforts in developing dollar-centred consumer markets for its exports in these economies (Fouskas & Gokay, 2012, p. 89).

The golden age of capitalism was heralded as miraculous due to the active participation of the United States in manipulating and merging banking and financial capital for investment purposes, with the dollar as the leading platform, to ensure the economic miracles of this period. The impact of the low price of a barrel of Saudi oil provided the impetus for fast growth in the economies of the United States, Japan and Europe in addition to the employment of Keynesian policy.

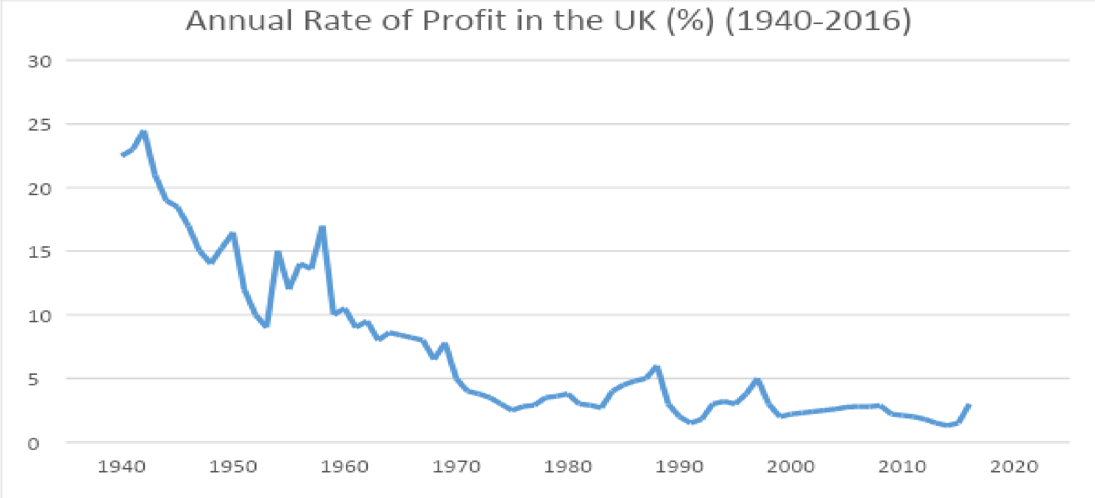
Additionally, the large supply of cheap labour after the war ensured that the technical innovation and military advancement achieved during the war could be employed to expand labour productivity, high profits and full employment within the economy. In major advanced economies, these labour productivity deals resulted in accelerated investments and the expansion of the welfare state to include all areas of labour such as social and health schemes.

By the mid-1960s, the profitability of these economies went into decline as the technical innovations allowed an increasing supply and production of goods facilitated by the Taylorist management techniques[12] in the production line. This technique involves the exploitation of workers through mass production and consumption of goods by the working class which produces a trade-off between high wages and relative consumption under a fast-paced working condition.

Roberts (2016) argues that the organic composition of capital rose due to technological advancement and investments in new markets with labour wages squeezing the share of profits, invariably minimising the rate of surplus value needed to accommodate and compensate for the increases in the organic composition of capital. The rate of profit of capitalist economies like the United Kingdom from 1950 till 2010 in table 2 show a marked fall as evidenced by the slow growth and high inflation figure below; it is evident that the stagnation witnessed during the mid-60s was a result of the end of the golden age of capitalism and its growth indicators.

[12] Taylorism defined in the mould of Jessop (1991) refers to "a distinctive type of labour process [or industrial paradigm], and macroeconomic concept of mass production, increases in labour productivity achieved via Taylor system, with mass consumption of goods, high wages and salaries and increased profits based on the innovative factory machines and constant investments in the machineries and strategy to achieve high output during this period."

Figure 4: Annual Rate of Profit in the United Kingdom (1940-2016)



Source: Own elaboration with data from the ONS-BOE database

Fouskas & Gokay (2012) argue that the uneven development of capitalism highlighted earlier became the platform on which other countries of capitalist development such as Japan and Germany were accumulating dollar at an increasing rate and lower labour cost than the United States. This resulted in a relative decline in profitability for the United States capital compounded by the inability to find profitable investment centres which in essence, created the dollar glut problem.

It is imperative to highlight that the decline in profit rates in the United States was reinforced by the competition between all capitalist nations resulting in the accumulation of dollars, and further escalated by the persistent deficit in the US balance of payments account during the golden age of capitalism. The balance of payment deficit was also encumbered by the speculative purchase in gold and persistent rise in the level of public and private debt levels in the United States.

To a large extent, the resulting paradox was that the golden age ended due to the inter-capitalist competition between the United States, Japan and Europe, facilitated in part by the rise in inflation levels and stagnation in investments, along with the increase in oil prices and the dollar glut problem.

The fall in profitability as encapsulated by Marx's law of profitability would show a resurgence of capital values, as old machinery and industrial plants became bankrupt which then resulted in massive unemployment and poor labour conditions. The move by governments away from the Keynesian policies of state intervention, market regulation and guaranteed labour productivity deals was replaced with neoliberal policies of deregulation and liberalisation of the credit markets in a bid to tackle the crisis of stagnation and over-accumulation in the 1970s.

The responses by the Anglo-American governments via neoliberalism and globalisation/financialisation to combat the over-accumulation crisis of the 1970s and tore store low profitability in material production could not match up to the economic miracles of the golden age of capitalism. These twin policies were engaged in a bid to liberalise the banking and finance markets and to ensure that the growth rate of the golden fifties and sixties could be replicated in the current epoch.

Thus, the inability of the non-financial sector to achieve pre-1970s profitability levels especially in the manufacturing industry led to speculation of financial instruments in the markets. A general occurrence in capitalism history and development is the dynamism in capitalist accumulation such that a fiscal expansion in the manufacturing sector opens up the economy, but as soon as there are shocks to the economy, then financialisation is employed to repel the crises.

The post-war period dubbed as the "Golden Age of Capitalism" was significantly different from the earlier epochs, with features of economic expansion sustained by productivity deals with labour, high capital stocks and economic growth. The accord between capitalists and trade unions were consulted and in agreement to balancing the economic activities in a mutually satisfying manner.

- **The decline of the Golden Age of Capitalism**

The decline of the golden age of capitalism was not as spectacular as its rise and, the miracles of this epoch reached a terminal height and started to decline in the late 196os, as a function of the slowdown and fall in the rate of growth of productivity after two decades of near full employment.

The contradictions of the global economic system and indeed capitalism sought effective avenues outside the collective Keynesian effective demand management which had ensured growth in the golden fifties and silver sixties. Historically, the theoretical framework that underlies capitalist development is the rate of profit which determines the rate and level of capital accumulation (Arrighi and Silver 2001, p.259).

These inherent contradictions manifested themselves as a structural crisis of over-accumulation enabled by the inability to accumulate capital and the decline in the rate of profitability. All of these resulted in a structural crisis underpinned by a fall in the average rate of profit as highlighted in the previous graph.

The relative decline in the rate of profit of advanced capitalist economies, especially in the United States, was directly linked to the contradictions and the (uneven and combined) development that opened up the US balance of payments and trade deficits in the economy. Also, the inter-capitalist competition between the capitalist triad of Japan, Germany and the United States ensured that dollar flows between the triad were sustained temporarily until the decline in profit translated into a full structural crisis of over-accumulation in the 1970s.

To this end, the decline in the rate of profit in the sphere of production acts as a signal that a shift from the caucuses of capitalist development and real sector productivity to the trading of financial instruments in the financial sector. This is in a bid to shore up the deficit and the crisis that may be brewing within this sector. This was reinforced by the international pressure from Japanese and German businesses deepening the dismal performance of US businesses as a result of the inability to earn commensurate returns from profitable businesses (Fouskas and Gokay, 2012).

The shift of productive capital into the financial sector portrays fictitious financial expansion based on speculative trading of financial assets and instruments, at the expense of real sector production. The surplus value realised in this sphere of financial and productive expansion results in the lowering of debt. The underlying crisis remains unresolved due to the precipitate challenge in the production sphere which remains unsolved.

In the United Kingdom, the restrictive monetary policy employed to combat high inflation, and low growth (stagflation) was the neoliberal policies of globalisation/financialisation, using the twin ideals of deregulated financial markets and trade liberalisation. These policies were initiated as a response to the failures of both the embedded demand management and the Bretton Woods System, by the government of Anglo-American economies. The objectives of the policy were to eradicate the high inflation in industrial nations and replicate the post-war high growth rate.

The resulting profit squeeze and reduction in investment capital came to the fore with the suspension and eventual demise of the dollar-gold convertibility in 1971 alongside the collapse of the Bretton Woods System. The suspension of the dollar-gold convertibility in 1971 was the platform on which other caucuses of capitalist development were able to catch-up with the United States in a post-war global economy.

The rate of profitability in US manufacturing began to fall before 1960 and the decline continued from the mid-60s until 1973 compared to the current business rate of profitability.

In essence, in the figure below, the average profit rates in Europe for manufacturing between the same periods fell by about 372 per cent compared to the United States which recorded 32 per cent. A common thread underpinning the rate of profits in this context is that the profit rates were not just declining in the manufacturing sector but in both sectors, with little or nothing done to stop the occurrence of the downward trend.

Table 1.2. Percentage Rates of Profitability, 1960 -1973

	ACC[2]	USA	Japan	Europe
Business Rates				
Peak Year[3]	17.2[4]	22.3	16.3[5]	32.0[6]
1973	13.6	14.8	11.3	19.6
1973/Peak Year	0.79	0.66	0.69	0.61
Manufacturing				
Peak Year	23.6	34.9	19.9	46.5
1973	19.3	22.5	12.1	33.5
1973/Peak Year	0.82	0.64	0.61	0.72
Source: Adapted from Armstrong, Glyn and Harrison (1984, p.257).				

Glyn et al. (1990) argue that the impact of the floating exchange rates after the collapse of the Bretton Woods system made the global system untenable for the high growth which had been seen in the golden age or the achievement of near full employment.

Glyn et al contend that the 1973 oil price shock was the straw that broke the camel's back, as the return to the previous Keynesian policy of effective demand management provided the needed impetus for economic growth but could not restore the rate of profit to its previous levels. Subsequently, the second oil shock changed the outlook of the global world economy, and the US Federal Reserve Chairman responded with monetary restrictions on the interest rate by raising both the real US and international LIBOR from 0.5 per cent to 7 per cent.

- **Brenner Perspective on the fall of the Golden Age of Capitalism**

Brenner (1978) acknowledges that the decline of the golden age of capitalism happened first in the United States when it hit a mild recession between the 1960s and early 1970s, arguing that the fall in profit rates in manufacturing due to competition from Germany and Japan, along with improved innovation and cheap labour cost, compressed the price and share of profit in the United States.

The United States manufacturing sector suffered from declines in profitability owing to complacency, low investments and low cost of goods which ensured that the economy was on full downturn. This was coupled with the dollar fixed exchange rate under the Bretton Woods

System which ensured that US products were expensive compared to other competitors from Europe and South-East Asia.

Furthermore, the US war on Vietnam resulted in inflationary tendencies in the macroeconomy, as a result of the overspending and oversupply of dollars in the global market, which caused the Eurodollar market to become flooded with bank-credit and excess capital seeking profitable avenues for commensurate returns.

This opened up an era of speculative activities in the international market, with the dollar expensive and the Japanese yen and German mark strengthened at the expense of the dollar. The Nixon government employed neoliberal globalisation/financialisation by abandoning the fixed exchange rate, and this unleashed the credit markets and deregulated the financial markets.

Moreover, the gains made by other capitalist regions of development saw the profit rates declining as a result of the stagnation of the world economy. The Anglo-American response was the institution of austerity packages and tight monetary policies in interest rates via the Paul Volcker Shock and credit markets, cuts to welfare programs and the departure from embedded demand management.

The busts and doom of the early 1980s brought about bankruptcies and the closure of industrial firms with the erosion of labour unions and associated protections and wages thereby increasing the level of unemployment in the economy. Invariably, the development of alternative regions of capitalist production via uneven development occurred during this period as Japan and Germany led the global economy during the First World War but had to catch up during the post-war period.

The incessant drive for relative surplus value by capitalism during the sphere of production is inherent to the survival of capitalism, as capitalists continue to seek extraction of surplus value from labour. The circuitry of capital itself reinforces the move from investment capital to capital accumulation with profit. Industrial capital fuels growth through production and so long as the firm increases in line with the capital invested, the capitalist would continue to seek increased profitability.

In Brenner’s (1978) account, he argues that the only reason profit level may fall is because of higher capital stock in storage and factories than the surplus value the sale could generate. The resulting stagnation is reinforced by the competition between various firms trying to compete for limited markets. He posits that profits can be restored via the reduction in capital stock or the imposition of cuts in wages, high unemployment, or lastly the raising of surplus value through the means of intensification of work or new technologies.

Additionally, the high Fordist wages paid to labour and linked to productivity deals supported by trade unions, along with a robust welfare state, ensured rapid advances and growth - until the wage demands started cutting into the profit level of capitalists - eventually creating the imbalance that led to the end of the golden age of capitalism. Brenner argues that the wage squeeze theory of declining profitability was the main reason behind the crisis in the political economy.

- **De Angelis on Class Struggles and Departure from Keynesianism**

De Angelis argues that the decline in the golden age of capitalism was as a result of the class struggles and the departure from Keynesianism and its ideals of government intervention in the economy. In the first few chapters of his book "*Keynesianism, Social Conflict and Political Economy*" Angelis posits that the economic features of liberalism and free markets, as the economic orthodoxy of the state in increasing aggregate output, became the platforms on which the social problems of each era were founded. These features of laissez-faire were not a spontaneous strategy of the markets but a detailed institutional response of the state in supporting the notion of market efficiency (De Angelis 2000, p.11-16).

This notion is set by supply and demand regulating the movements and direction of the market identified in John B. Say's law that "supply always creates its own demand" as long as the market is sufficiently cleared of any impending rigidities to the free movement of the law of supply and demand. One of the many rigidities to the supremacy of the markets to operate freely is the rise of the "labour power" in ensuring that it needs are met, and aspirations realised during material production.

The sphere of conflict originates when capitalists with the money capital resort to determining the wages accrued to the labour class in the realisation of profit rate commensurate to their investments in production. Whilst, on the other hand, the working class push for the highest wages necessary to satisfy their needs through the activities of competitive labour unions, strikes and demonstrations on the shop-floor. The contradictory nature of the expectations and requirements of these two factors of production eventually creates rigidities and struggles between the need to ensure market efficiency and the welfare of the working class (De Angelis 2000, p.13).

Keynes foresaw the role of class struggle and social conflicts in material production as being derived from the contradictions between capital and labour and its impact on output. The First and Second World Wars saw the influence of class struggles and labour militancy in achieving its objectives, with Keynes providing the necessary economic system employed to combat the severe downturns of the global economy. The departure from the dogmas of economic liberalism and methods led to the institution of Keynesianism in all capitalist economies of the world.

The level of unemployment in the aftermath of the depression in the 1922s eventually led to the "Great Depression" of the 1930s.This was due to the increasing difficulty of British capital to compete with other economies of capitalist development. Fundamentally, the wage rigidity experienced in the post-war period was reminiscent of the situation of the 1920s.

Keynes argued on the impact of the rigidity of the wages of the working class at the expense of the treasury which was pursuing deflation in the economy as a way of restoring the pre-war Gold Standard. His solution to the rigidity of wages was the devaluation of the sterling because the "wages rate should be regarded as too rigid in the short period" to adjust to the "ebb and flow of international gold credit" (Keynes 1922b, p. 67)

In Keynes' view, deflation as a state monetary policy was inadequate in maintaining profitability and curbing high wage income of the working class and resorting to the management of credit supply as the only way in smoothing the vagaries of booms and busts in capitalist economy (Keynes 1923, p. 117)

De Angelis argues that Pre-Keynesian doctrine (Classical) did not recognise the existence of capitalist crisis because the notion of Say's law satisfied the possibility of crises of over-production. The features of Say's law always meet the demand generated in the production, and therefore there is no wastage in the economy because of the phenomenon of all supply being generated by an increase in aggregate demand (De Angelis 2000, p. 30).

De Angelis (2002) argued that the Keynesian revolution was a set of institutionalised strategy of managing class relation between surplus and necessary labour via the adoption of social platforms such as the "social deal" and "social micro foundations". He posited that the micro-foundations were the platforms on which the dynamics of class discontents and crisis could be eliminated. De Angelis explained class struggle as the disruption to the class organisation and composition of workers and the eventual restructuring of the "craft worker" via the Taylorism/Fordist[13] mechanisation process in production (explained in subsequent chapters four and five of this thesis).

De Angelis articulated his arguments of class struggles between the working class and capitalists with the Second World War presenting the basis for the institution of Keynesianism

[13] Taylorism is an American model of increased production and productivity in the shop floor developed by Frederick Taylor during the early 1900s coupled with the Fordist high wages.

and other state apparatuses. Also, the legitimation of labour unions by the state provided capitalists with the means of controlling all surplus value and means of production. Prior to this, the years of the Great Depression had seen an increase in class struggles and the number of unemployed around every stage of reproduction of labour power resulting in crisis during this period (De Angelis 2000, p. 50-52).

The years of the Second World War saw a new dynamism in the level of employment in the economy, as a high number of the labour force were drafted to the War, and thus the seemingly unwaged became available for work. By the mid-1940s, Lichtenstein (1982) asserts that being gainfully employed at real wages higher than the prevailing ones became a recurrent feature. The adoption of the no-strike pledge by the leadership of the unions and the de-unionisation of workers stripped the working class of the power to bargain for high wages and better working conditions (Lichtenstein 1982, p.10).

The high rate of absenteeism and insubordination by the workers on the shop floor defeated the objective of institutionalised labour unions thereby putting pressure over the means of production and bringing the end to the economic system of Keynesianism.

Furthermore, the fall in productivity levels was a result of the short wild cat strikes by the rank and file, and importantly the subsequent inability of the management to make appropriate production plans and schedules for current output generation at socially acceptable production levels. The quest for equal wages between the rank and file was encapsulated in the movement by labour to overthrow the Little Steel Formula[14].

Others have argued that the productivity crisis was a result of the high wages and labour militancy of the era, but De Angelis posits that the end of the golden age of capitalism was as a result of the inherent contradictions in the control over the production process - which was lost to the shop floor workers rather than the labour unions. The bureaucratisation of the unions was crucial to the enforcement of authority over labour in the first instance and the integration of the union bosses to the state policies to ensure economic growth in the last instance.

The end of the war shifted focus on the productive capacities of the factory from building military materials and defence systems to everyday goods and services, which may have resulted in the rise of unemployment levels. The military expenditure of the war period was useful in expanding the level of demand in the domestic market, and by extension, strategies

[14] The Little Steel Formula was a strategy adopted by the War Labour Board in 1942 during the resolution of a conflict in the Steel Industry with the features of resolving relations between employers and trade unions during the Second World War. The Board was tasked with ensuring growth and wage equality between all workers on the shop floor and also helping all stakeholders such as the employers, government, labour and management in achieving their objectives.

to maintain the high growth, prosperity and near full employment - despite the likelihood of a frustrated working class.

Maier argued that the Pax Americana strategy of maintaining output via the productivity deals was enshrined in the "construction of the post-world war II western economy under the United States auspices can be related to the political and economic forces generated within American society; the way Americans interacted with the social and political components of other nations, Europeans and Japanese" (Maier 1978, p.24).

De Angelis argued that the end of the War brought about the expansive productive capacity of the United States and potentially a crisis of overproduction. The three solutions envisaged would have impacted negatively on the profitability of US capital or pauperised the working class. The only feasible solution identified by the Washington consensus was to look outwards via foreign trade, with the implementation of the General Agreement on Tariffs and Trade (GATT) on other capitalist economies to guarantee domestic jobs in the economy.

On the other hand, the institution of the Bretton Woods System outlines the framework on which the new international monetary order was birthed to replace the previous pre-war Gold Standard of fixed exchange rates. The Bretton Woods System became the new platform on which foreign exchange reserves could be managed, to relieve pressure on international deficits and ensure that states could drive their domestic growth and economic policies (De Angelis 2000, p. 70).

The Bretton Woods System was indeed a system where the state could impose and manipulate class relations in a bid to drive economic output outside of the previous Keynesian embedded demand management, via "productivity deals". This invariably led to the inability of capital to attain full employment and growth internationally.

The increase in class struggles and social discontent in the 1960s and 70s saw the decline in productivity and, by extension, profitability in advanced capitalist economies, wherein investments started declining after the 1974 oil crisis; manufacturing profitability started to fall, and inflation started inching towards double digits by the late 1960s (Dumenil et al. 1987, p. 345). All efforts to restore profit rates to the golden age level were unsuccessful as productivity grew at a slower rate than the money wages, leading to inflation coupled with the low growth in the economy.

- **Approaching Globalisation/Financialisation**

The neoliberal globalisation/financialisation process of the last few decades have shown that crises of capitalism are inherently linked to the social discontent that led to the collapse of Keynesianism and that still serves as downward pressure on the capital accumulation process.

The balancing act of markets in portraying globalisation/financialisation as a response to the structural crisis of over-accumulation of the 1970s has not yielded the same growth seen during the golden years of capitalism. Arguably, adherents of free markets economics see globalisation as the only panacea to the present crisis of over-accumulation and low growth.

The deregulation of the financial markets and trade liberalisation in the 1980s, with its features of unleashed credit and financial markets, has seen the dominance of capital over labour institutionalised by the state and other stakeholders within the financial sector. At the root of the financialisation debacle in the early 1970s was the social relationship between all factors of production and its influence on the global economy in restoring the rate of profit.

Following on from the narrative in the previous section, this section unravels the central arguments in this thesis by providing an understanding of the critical role that the rate of profit plays in the analysis of neoliberal globalisation/financialisation. This will be identified in the context of the financial markets and unleashing of the credit markets in the 1980s which then led to the unsustainable growth of household debt since the collapse of the Bretton Woods systems.

It provides the nexus between neoliberalism, profitability and the rise of household debt in the United Kingdom, using both traditional and contemporary Marxist arguments on the tendency for the rate of profit to fall. Financialisation as a concept has so many connotations, and the various impacts and roles that it plays in an economy are unique since the advent of the neoliberal globalisation and the expansion in the financial markets.

The level of transformation of the financial service sector, especially the banking institutions, has undergone several changes since the advent of liberalisation and deregulation of the financial markets in 1970, with the accompanying expansion in the finance industry.

The underlying theme in the neoliberal and financialisation project is the influence of the state in removing barriers to free markets -with the added notion that the removal of such barriers to free trade and finance would promote growth. Unfortunately, as Harvey (2005) argues in his book “Brief History of Neoliberalism”, the free market revolution as a political strategy has not restored the economic boom enjoyed by advanced capitalist economies in the golden age of capitalism.

This assertion by Harvey rests squarely on a classical Marxist framework of class relations and reproduction which leads to a higher concentration of income and wealth in the hands of capitalists and the restoration of class power. The free market economics of Neoliberalism initiated by Anglo-American governments to restore the falling rate of profit remodelled these economies to seek profit in the domain of circulation rather than in the manufacturing sector.

Thus, the significance of the financialisation project came to light with the switch from the previous international monetary system of Gold Standard to the Bretton Woods system and required each member country to attach its currency to the US dollar which made it the global reserve currency.

The impact of the Marshall Plan in the post-war period provided impetus to the status of the US dollar in global trade relations as it helped to resuscitate European states from the ruins of the war. The impact of the war on the economy was most significant in the real sector as the funds through the Marshall Plan helped to build and maintain infrastructures in Europe.

The Bretton Woods system was initiated to regulate the exchange rate between the dollar and gold reserve to overcome the problems of deficit payments systems by countries under the gold fetter system. The collapse of the Bretton Woods system in 1971, especially in the context of the reconstruction efforts in Japan and Europe, accelerated the crises -coupled with the influence of the petrodollar US economy.

The hegemonic role of the United States in the global political economy is reinforced by the dollar's supremacy and dominance from the re-arrangement of the global system, especially after the Second World War. Fouskas & Gokay (2012) reiterated this dominance through the "hub and spoke arrangement" which invariably established the United States in international free trade pegged to the new gold - the United States Dollar. The hegemony of the dollar in payment systems was not just by the ideals of free-market economics, but the role of the strong state helped to reinforce its seeming success in the financialisation project.

The role of the "Strong State" in the Financialisation Project

The increased dominance of finance and financial markets in regulating capital flows between economies within the capitalist system has grown in leaps and bounds since the inception of neoliberalism in the 1970s.

The changes witnessed by these capitalist economies were accelerated by the strong state presence during this epoch wherein financialisation[15] as Krippner states that "profits accrue through financial channels rather than through trade and commodity production" took centre stage in the global capitalist economies especially in the United States and the United Kingdom (Krippner 2005, p.174).

Historically, the rise of financial markets is linked to the stagnation tendencies of mature industrial capitalism as argued by Sweezy & Magdoff (1987), who state that the inability of rentier capitalists to maintain the rate of profit from production processes and the resulting market inefficiencies from overproduction and declining wages to meet this consumption, means that the rentier class seek other ways to maintain profitability with the financial markets becoming the only alternative accumulation platform on which the rentier class could exploit their accumulation tendencies.

The role of the state in financialisation can be inferred from the influence of the United States in engaging its domestic economy and protecting its hegemony through the platform of financial capitalism as a regime of accumulation when compared to industrial capitalism.

The emergence of corporate takeovers, mergers and acquisitions due to the falling rate of profit in these industries in the 1970s provided the platform on which financial domination happened, these corporations were divided into smaller firms and the employees made redundant whilst the remuneration of executives were linked to performance of the stocks on the exchange.

The inefficiencies of these corporate organisations and appalling performance meant that the state had to intervene in the economy with its apparatus to arrest the profitability crisis through policies differing from the embedded demand management policies of Keynes.

Keynesianism ensured growth and prosperity during the golden age of capitalism but the occurrence of the crisis at the end of the Second World War meant that the state had to intervene to arrest the resulting crisis which happened after the period of high economic growth. In a bid to overcome the stagnation crisis and the ensuing challenges of social conflict

[15] Financialisation as defined by Epstein refers to "the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies"

between the classes, along with problems of the deficit, the state was left with the challenge of seeking alternative platforms of output.

The departure from Keynesianism and embedded demand management policies led to the deregulation of the financial markets, away from the fetters of gold, in a bid to restore the same level of economic growth and output as that of the golden age of capitalism. The social crisis overshadowed the rate of profit in advanced capitalist economies during this era, and with issues from the labour unions and low-growth, high inflation and unemployment, the only way by which profit can be sustained is through the deregulation of the financial market and trade liberalisation.

In summary, in advanced capitalist economies such as the United Kingdom, the deregulation of the financial market opened the economy to economic expansion and unleashed the credit markets. The expansion inherently created a new regime of capital accumulation through the financial markets outside of the sphere of production.

- **Consumer Culture under Financialisation Regime**

Lapavitsas (2013) argued that financialisation transforms not just the sphere of production but also households, firms and government. The dominance of financial markets in capitalist economies continues to evolve and transform into different roles with the underlying theme being the need to sustain its rate of profit. The changes to the economic system in the 1970s freed the financial markets and the exchange system, moving it away from the restrictions of the Gold standard.

The culture within the banking sector and within households has also changed with the advent of neoliberal financialisation in economies such as the United Kingdom and the United States. Lapavitsas (2013a) argues that the role of money in mature capitalism shapes the day to day affairs of households, firms and business but it also shapes the underlying culture of consumption via-a-viz spending habits as the exchange rate becomes loosely floating with no restrictions on the movement of capital.

The financialisation of personal incomes as argued by Lapavitsas (2009, 2010) also comes to the fore as financial institutions become more involved in providing loans to households rather than to manufacturing firms. The culture pronounced, with the number of credit cards, mortgage debt and household debt leading to the transformation of households' behaviour towards debt facilities.

In the 1920s and 1930s, the growth of household debt was very insignificant, especially during the golden age of capitalism, as most households were receiving high wages due to the productivity deals and the institutionalisation of labour which ensured that corporate management and the government were involved in the processes of full economic growth. This is compared to other times where the dominance of capital has not only impaired the growth of the labour class but also restricted the welfare system which could help in times of need.

Markedly, households' resort to using debt facilities to augment their living standards and the financialisation of personal incomes extends to households in a period of complete dominance by the financial sector. The notion by Eugene Fama (1970) that the markets are efficient with asset~~s~~ prices that fully reflect all available information, has transformed the way households review financial information and act upon such information to make decisions.

Financialisation of households, therefore, reshaped the way firms, competitors, stakeholders and the state view financial information as the increasing trend of capital domination saw a rise in stock market advertisements, the inclusion of financial indices in news bulletins, investment banking and increased speculation.

The culture during the financialisation era is entirely different from the one that households had experienced in the period of the golden age of capitalism with high Fordist wages, and Keynesian state policies ensuring high growth, low unemployment, and low inflation. Arguably, during the golden age, households had access to high labour income and welfare systems, and thus the level of debt was minimal when compared to the era of financialisation wherein households often need credit facilities to aid their consumption expenditure.

As Barrell et al. (2010) argue, crises are periods in which individuals could accumulate property at low risk in an efficient market with rational maximising individuals, especially since the advent of neoliberalism and the collapse of the Keynesianism welfare system. The level of debt in advanced economies has, however, grown to unsustainable levels especially after the removal of all fetters on financial markets and trade liberalisation in the 1970s.

The expansion in financial markets can be seen as response to the structural crisis of over-accumulation of the 1970s and the oil crisis of this period, and the resulting increased financial actions and motives became the platform on which financialisation mobilised its apparatus in increasing households' access to credit markets.

Underlying this crisis was the rentier class quest to increase profit rates - and financialisation became the platform on which to achieve this goal. That is, in the rise of the contemporary crisis, financialisation remains critical in the theoretical framework and formulation of crisis theory within the Marxist school, especially since the advent of neoliberalism.

- **The Role of United States Monetary Policy in the era of Financialisation**

It is imperative to highlight the importance, not just of the state, but also the state apparatus that was used in the financialisation project of the advanced capitalist economies in the 1970s as a response to the profitability crisis and the oil crisis of this era.

Leo Panitch (2003) provides an insight into the developments of monetary policies used primarily after the collapse of the Bretton Woods system in which the exchange rates markets were released from the fetters of the Gold standard and deregulated from government influence and control.

Thus, as discussed previously, the level of financial expansion due to the twin policies of deregulation and liberalization of the financial markets invariably changed the public debt markets globally. The emergence of a global public debt market unleashed the credit markets on a global scale such that with the high interest rates in the States, it became difficult for other countries to trade and maintain their respective domestic economies.

Panitch (2003) argued that the employment of the deregulation and liberalisation of the US financial structure was a response by the US government under Nixon to arrest the fall in the dollar exchange rate in comparison to other currencies especially the German Deutschemark.

The net effect was the unlimited inflow of dollars to the US where the US corporate sector used this avenue to gain access to offshore finance, which was the objective the monetary authorities sought to achieve using the high-interest rate. Panitch argued that the hegemony of the US dollar and economy in today's world was not the original intention of the US authorities but rather to ensure growth and a balanced budget in its public finances (Panitch 2003, p.1-4).

An essential dimension to the challenges faced by capitalist economies after the Second World War was the declining profit rates and downturn in manufacturing sector which adversely affected the all efforts in rebuilding these countries. This was coupled with the increasing demand from labour unions for better welfare packages to support the growth efforts on the shop floor.

Webber & Rigby argue that the rising organic composition of capital with a stable rate of exploitation causes a decline in the rate of surplus extraction, and this was a significant cause of the falls in the rate of profit following in the stead of Marxist arguments in Vol 3 of Capital (Webber & Rigby 2001, p.248).

The import of the Volcker shock came as a response by the state and the monetary authorities to attempt to re-create the growth potentials and output achieved during the golden age of capitalism. The competition experienced from Japan and Germany limited growth and intensified financial discipline domestically in the United States.

Panitch's arguments were a departure from Brenner's arguments as to the causes of the fall of the golden age of capitalism. Brenner's argument was identified as the fall in rates of profit coupled with the intensified competition from other regions of capitalist economies resulted in the production of goods for export at a lower cost of labour than the US competitors. Panitch argued that the closure of factories and the suppression of the unions were the main factors that made the US government restrict all competitive efforts.

The adoption of Volcker's monetary stance of reducing inflation and putting the US economy back on the forefront of capitalist economies reinforced inflation in other countries outside of the advanced capitalists' economies. The quest to establish capital domination, both domestically and internationally, prepared the ground for the neoliberal structures of deregulation and liberalisation to economies which are open in the world.

Thus, the Volcker shock phenomenon was a deliberate decision by the monetary authorities to discipline the working class by raising high-interest rates which gave importance to the rentier class to extend their power and significantly transform the social relations in production.

Conclusively, the restructuring in the global economy, especially after the end of the Second World War, ensured that Japan, Germany and other South East economies were linked to the United States via the dollar and Marshall Plan. The effect was that domestic states were now operating under the global primacy of the dollar and its attendant monetary policy.

Thus, the globalisation/financialisation policy of the US Fed - under Volcker - to raise interest rates to historically high levels in order to establish some discipline to both capital and labour, restructured the entire economy and allowed the free flow of funds and the globalisation of finance. The financial expansion and deregulation of the financial markets implied that neoliberalism took on new depths ahead of the competitive pressures and uneven development, which then transformed the shape and form of capital accumulation in the United States and the United Kingdom.

1.4 Background to the Research

The dominant core theme of mainstream-liberal economists has always been on understanding the impact and influence of socioeconomic-cum-political issues of society as it relates to societal wealth. Households in the United Kingdom have been faced with stagnant wages for the last fifty years, in addition to the expansion in the financial sector which has seen a marked increase in the use of credit facilities for mortgages and general everyday purchase of goods and services.

This thesis evaluates the way household debt has been significantly transformed with consumption levels and as part of the capital accumulation process, especially in the era of liberalisation and deregulation of finance in the United Kingdom.

The core argument in this thesis is that the unsustainable rise in household debt in the United Kingdom has not resulted from the efficiency in free-market economics but an ideology of capitalism to aim to restore its falling rate of profitability in the real economy through household debt speculation. That is, the end of the Fordist high salaries and the unresolved crisis of over-accumulation became the platform on which neoliberalism was seen as a response to the massive losses of profitability in the real sector.

More importantly, the nexus between financialisation, profitability and household debt in the United Kingdom from the early 1960s to the late 1970s - wherein the governments of the United States and the United Kingdom deregulated the financial markets and liberalised exchange rate markets - provided an avenue for the dominance of capital and the financial market globally at the expense of labour.

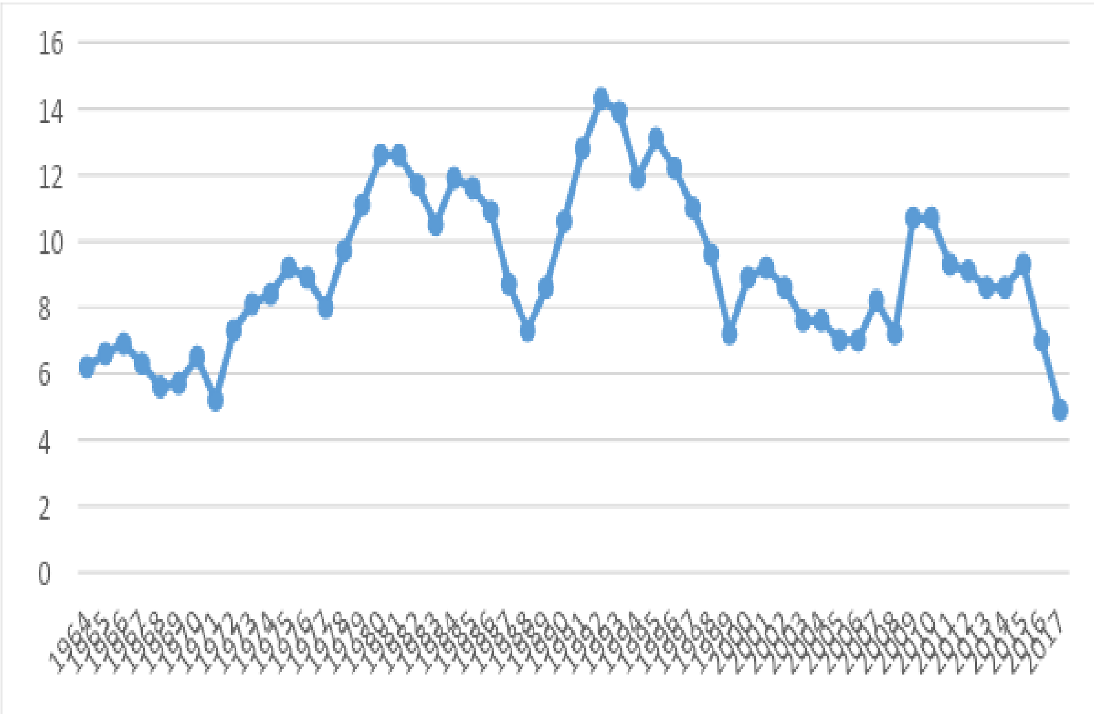
Thus, the expansion in the financial markets and the rapid access to credit enabled households to make purchases in the housing markets along with other capital assets expenditures during this period of liberalised financial markets. The changing dynamics in the relationship between capital and labour termed as globalisation/financialisation of the household through debt relations, represents the core arguments of this thesis.

Although, Lapavitsas (2009) examines the financialisation of households everyday lifestyle. This thesis departs from Lapavitsas' argument by examining financialisation in a historical and contemporary perspective as the departure from high Fordist wages and the unresolved over-accumulation crisis that generated the tendency of the decline of rate of profit and which also changed the landscape of credit relations in the United Kingdom.

This thesis looks at the dynamism in household debt, and credit relations in the era of financialisation in the United Kingdom, as households are supplied with credit facilities in the first instance allowing banking institutions to expropriate profit from household's wages.

The dichotomy in this relationship is evidenced by the falling rate of household savings in the United Kingdom during this period. The figure below explicitly shows the stagnancy in savings rates instigated by the stagnancy in wages and household income over time that resulted in households seeking credit facilities to satisfy their consumption expenditures.

Figure 5: Household Saving Ratio in the United Kingdom (1964-2016)



Source: https://www.ons.gov.uk/economy/nationalaccounts (accessed 30 September 2018)

Marx (1976) reiterated that the contradiction between capital and labour that has instigated the dominance of capital and the suppression of the labour class is such that the use value and exchange value have predominantly been transformed in the capitalist production systems. The transformation in the social relation between money and credit has been exhausted such that the accumulation of capital has led to banking institutions expropriating profit from the households' wages in the form of supply of credit to these households

In addition, he expounded on this relationship by positing that the capitalists' system of production is inherently flawed in distributing the rewards earned from production which is concentrated into the hands of the capitalists, as the owners of capital (Marx, 1976, p. 125-133).

Kalecki (1954) introduces his argument that profit is the single strand on which the analysis of income and the distribution of allocation rests in the modern world. His fundamental theoretical contribution to the subject of profitability rests upon not just the capitalist's unhindered ability to determine the level of capital investments but also the level of consumption expenditure in the economy.

Indeed, Kalecki reiterated that 'now it is clear that capitalists may decide to consume and to invest more in a given period than in the preceding one, but they cannot decide to earn more. It is, therefore, their investment and consumption decisions which determine profits, and not vice versa' (Kalecki, 1954, p. 46).

Additionally, Kalecki (1954) argue in his paper that to a large extent the proletariat are restrained in their consumption outlook as they tend to spend a large percentage of their income, giving them little or no choice other than to resort to borrowing to meet their spending obligations.

Kaleckis arguments were more in tune with the time and age of the earlier capitalist epoch, reinforcing the source of the great depression as a result of the unequal relationship between the flow of relevant income and flows of debts commitment. This unequal relationship is aptly described by the Minskyian financial instability hypothesis to explain the inherent contradictions of the capitalist system of production and its unequal distribution of resources between the factors of production.

The typical boom and bust cycles in the business cycles are symptomatically representatives of households' behavioural patterns such that in a boom, households' resort to debt-financed expenditures which stimulate economic growth. This debt-financed spending increases the total output of the economy as reflected by the increasing debt-income ratio[16]

Minsky (1957) argues that the continual increase in debt-financed spending comes to a crescendo whereby it becomes unsustainable and therefore results in the financial system becoming fragile and sensitive to shocks in the economy. Any adverse shocks in the form of interest rates movements initiate a downward spiral of these households, which on a macro level results in adverse economic turmoil.

Minsky (1957a), asserts that the processes encapsulated above, and the innovative mechanism of financial intermediaries, are all positioned to trigger instability in the financial

[16] Office of National Statistics (2015) *UK Households and NPISHs Annual (1997-) and seasonally-adjusted Quarterly (1997q1-) Gross Disposable Income (Nominal £m)*. Series code RPHQ. UK: ONS. Available at: http://econdata.uk/finance/household-debt/commentary-household-debt/ 2016).

system. The corollary to this in the context of households is that as these households seek demand for goods and services, it creates a necessity for financial intermediaries to provide the funds needed to purchase these assets in an era faced with low wages.

The capitalist system itself has its origins in “finance capitalism” with a platform of reinventing itself in the ownership and control of financial assets, achieved by borrowing and credit expansion. An ideal that Minsky (1957b) reiterated as placing the banking system at the heart of most financial crisis as they sought profitable outlets through financial platforms - such as the credit system which directs value added away from the households to the lender.

Thus, in a boom period, households are intricately integrated into the financial systems such that they relinquish liquidity by purchasing assets to receive a higher return on their financial assets as they hope that the future may be favourable to them. Households inadvertently continue to increase aggregate demand for funds in a period characterised by low interest rates and elastic supply of finance.

Minsky (1957a) posits that the decline in the liquidity of financial intermediaries may also increase instability in the system as assets are continually exposed to the likelihood of deflation of value because of the probability that firms and institutions may fail in their ability to meet debt obligations, even though financial institutions are often shielded from systemic market-wide shocks by the concept of Lender of Last Resort[17]

By comparison, this is not the case for households as they do not have access to any lender of last resort in their quest to meet their debt obligations and commitments when they arise. It often leaves them in a worse state than they were before accessing the credit facilities.

To summarise, the dominant theoretical approach of the 1970s was a period of prevalent deregulation of the financial markets, with an added caveat of providing access to credit markets. This was argued by various scholars[18]as a policy used by advanced capitalist economies and households to augment stagnant wages during this period.

To this end, McKinnon and Shaw’s (1973) arguments reinforced the notion that borrowers’ access to credit facilities remain a key platform to economic growth They posited

[17] Lender of last resort is a concept adopted by Central Banks to respond to extraordinary systemic shocks in the financial systems through a number of ways so as to arrest such shocks escalating to widespread shut down. (See Marc Dobler (2016), Stella et.al (2016) for more discussion).

[18] Kaminsky and Reinhart (1999); Rancière et al. (2006); Elekdag and Wu (2011); Mendoza and Terrones (2008).

that the increasing financial liberalisation and deregulation help in increased savings, investment and growth in the financial markets[19]

Though these approaches helped to open the financial markets in the short term, households found out that it was unsustainable to maintain the same level of debt-led consumption expenditure in the long run, without a corresponding increase in the level of household income. Indeed, Iacoviello (2008), Blundell et al. (2008) and Krueger and Perri (2006) in their respective studies revealed that these households resorted to borrowing to maintain their level of consumption during a period of declining income levels.

However, considering the studies employed by both demand side and supply side in explaining the increasing households' debt in the United Kingdom, there has been no unanimity in the investigation into the causes and determinants of household debt in the United Kingdom.

The core objective of this research is to provide a well-grounded understanding into the underlying causes, and the implications of the contradictions inherent to the capital accumulation process that have inhibited real sector productivity and by extension led households to debt in the United Kingdom.

1.5 Research Objective, Design and Methodology

- **Research Objective and Design**

This thesis investigates the historical determinants of the rise of household debt in the United Kingdom as a function of the end of the Fordist high wages and the decline in the rate of profitability which has seen households with stagnant wages resort to credit facilities to finance their daily consumption needs in the era of finance hegemony. That is, household debt has become a platform through which capitalists continue to attempt to restore the rate of profitability in advanced capitalist economies.

Empirically, studies such as Palley (2002) discuss household debts as a platform for stimulating demand and an impetus for output in the short term; Korty (2008) identified unequal income growth as a platform for increase in household debts; Rajan (2011) discusses increase in household debts as an avenue to offset income inequality in the short term.

[19] See the study by Cynamon and Fazzari (2008, 2013), van Treeck and Sturn (2012, 2014), Zezza (2008), Barba and Piveti (2009) and Palley (2012a, chap.3) in their studies investigated the effects of debt-led consumption financing in the United States.

Furthermore, Palley (2013A) and Setterfield (2013) have investigated the consequences of wage differential in the economy as against productivity growth.

All of these studies, even though they recognised the implications of household debts in the short term, ignored the underlying causes and determinants of household debts in the first instance whilst also failing to account for the inability of the real sector to sustain its profitability.

More importantly, most studies have often employed quantitative analysis in investigating the increasing level of household debt, neglecting other qualitative and historical factors that may account for the high rate of household debts in advanced high-income nations such as the United Kingdom. In particular, Cynammon and Fazzari (2015) employed empirical tests to examine the high rate of household debts in the United States but did not include the historical and qualitative factors that may have led to the unsustainable growth of households employing credit facilities for their consumption expenditure.

To this end, empirical studies may not be sufficient in determining the influences, and implications, of rising household debts in the United Kingdom, as the notion of "one cap fits all" may not necessarily fit into the United Kingdom context.

In summary, this thesis aims to identify the historical causes and influences of household debt in the United Kingdom with the added purpose of analysing the political-cum-economic factors that may have led the rate of profit of real sector productivity to decline in contemporary times. The research objective is satisfied as follows:

- ✔ To identify the underlying causes and determinants of household debt in the United Kingdom from 1971 till 2015.
- ✔ To examine the relationship between the growth of household debt, rate of profitability and financialisation in the United Kingdom.

Research Design and Approach

Generally, from available literature and previous research, there seems to be a substantial dossier of divergent views on the increasing rate of household debt in advanced high-income countries such as the United Kingdom. Empirically, there remains a large body of evidence of factors[20] such as deregulation of the financial markets, low interest rates, low

[20] Palley (2002); Rajan (2011) (2013A) and Setterfield (2013) all alluded to various reasons for the increasing rate of household debt in advanced high-income nations such as the United States and the United Kingdom.

inflation rates and lax regulation, amongst others, leading to the increased rate of household indebtedness.

However, these studies gave no thoughts as to the real causes of household indebtedness, which was triggered by the inherent contradictions in the capitalist mode of capital accumulation; the increasing dichotomy in a capital-labour relationship that was fuelled by the historical processes accompanying real sector unprofitability.

This study, however, is designed to investigate the causes and determinants of household indebtedness and the implications for households, firms and the economy at large. This is situated within a Marxist approach by providing an historical account of the growth of household indebtedness as a function of the mismatch in class struggles and income inequality.

Conceptually, the Marxist (1986) school of thought rests on the approach of evaluating the economic-cum-political structure of a society as it relates to the consumption pattern of that society and show it distributes the economic rewards of all factors of production. That is, the process of capital accumulation and the mode of distribution of the accumulated capital goes a long way in building the fabric and structure of each society.

Consumption in most advanced economies of the world, including the United Kingdom, rests upon the traditional laissez-faire[21] model of increased access to financial markets helping to breed competition as well as innovation. Empirical studies such as those undertaken by King and Levine (1993, 1997, 2005)[22] and Goldsmith (1969)[23] revealed an above-average positive relationship that exists between financial sector development and economic growth in several countries over an extended period, with implications for capital accumulation processes and full employment.

Theoretically, the notion of access to credit~~s~~ as identified by Levine (1997) supports capital accumulation by financial intermediaries through the notion of mobilising savings from households, managing risk and putting funds into productive investments. All of these

[21] Laissez Faire was a policy response by governments of advanced capitalist economies to instigate aggregate demand and encourage adoption of private property with little or no government intervention but only market forces in the financial system. This was spearheaded by the government of the United States and the United Kingdom.

[22] This was a seminal study that employed over 80 countries over a 29-year period using various proxy to measure financial sector development and produced strong empirical evidence to support capital accumulation process linked to growth.

[23] Goldsmith employed about 35 countries in his study between 1860–1963 and found an above average rate of financial development as well as a positive relationship between economic growth and financial development

processes reinforce the capital accumulation processes, because, as capital builds~~,~~ it needs borrowers to engage in trade facilitation, which also enhances the accumulation processes.

Household debt only occurs when households are deficient in meeting their full employment and, as a result, must resort to employing external finances through a financial intermediary to meet these expenditures.

Marxian arguments have been more centred on the labour-capital relationship and what constitutes the distribution of wealth in the context of a political, institutional and macroeconomic perspective. The macroeconomic, historical, political and institutional forces that have strengthened the dynamics of household debt have also been the platform on which the underlying factors and determinants of household debts have increased in the last half-century.

Firstly, output in the economy is hinged on the availability of capitalists to allocate resources to all factors of production in order to maximise shareholder value as well as reduce the cost of production. Thus, as capitalists provide the capital necessary to sustain the production process, households are also required to purchase goods and services through the wages received as a reward for their labour power.

Indeed, financial institutions play their intermediation role and allow access to credit~~s~~ markets by providing the necessary environment where the production of goods and services can be encouraged as well as households enjoying their reward from the production process.

Secondly, financial market deregulation has transformed the intermediation role of financial institutions in the economy, resulting in new capital-labour dynamics with severe implications for the households in advanced high-income economies. The financial market deregulation policy was advocated to increase access to financial markets whilst also increasing competition between financial intermediaries in their quest to maximise profits. This has led banks to not only source the most productive enterprise but also subjugate household consumption patterns into their strategy of maximising profits.

Thirdly, as households continue to grapple with the dynamics of this capital-labour relationship, effective demand becomes enshrined in the capital accumulation process whereby capitalists and speculators require households to make their consumption expenditure a reality.

Thus, capitalists' quest for profitability instigate them to reduce their cost structure in the productive centres through cutting labour power and employing more technological advances when producing goods or services. This inadvertently reduces the wage structure of the labour force and reduces their ability to make effective demand in the market, which further impinges on the strength of financial intermediaries to succeed because of the falling rate of return from the real sector.

Meanwhile, household indebtedness arises from a demand deficient platform wherein households are faced with low or stagnant wages and resort to credit facilities in order to meet their consumption expenditures. Additionally, capitalists in their quest to meet their profit maximising objective, always resort to cutting costs of production by minimising the size of their labour force.

In understanding the processes involved in this dynamism, the historical and macroeconomic perspective that has shaped the structure of capital accumulation and led to the momentum in consumption patterns in the United Kingdom will be evaluated and examined in detail, to understand the underlying causes and long-haul consequences of household indebtedness. The two main economic epochs in the history of the United Kingdom will be studied in detail to reveal the various ways by which households are subjugated into indebtedness and the underlying issues around this phenomenon.

One of the first periods was the 1930-1970 years of the Great Depression through to the aftermath of the global decline in demand, with the second period of 1971-2015 signifying the years of the fall of the Bretton Woods system and the gold exchange system with the implications for the global economy. An observatory investigation into the wage rate and output of the proletariat during these two distinct periods would suggest that there were marked differences with implications for understanding the role of financial intermediaries in this epoch.

To this end, the primary thesis of economists such as Adam Smith, Karl Marx, Keynes and, lastly, Minsky will be sought in explaining the dynamics in consumption patterns and will serve as a basis to explain the increasing trend of household indebtedness in the United Kingdom. The contributions of these economists will help to ascertain or disprove the dynamism in consumption patterns of modern households and also help to achieve an understanding of its implications for the economy.

The Marxist/heterodox approach employed in this research makes particular reference to the use of historical evidence and theories in either accepting or rejecting the contradictions in the household consumption dynamics. This approach of using historical evidence linked with the theory is unique and different from the traditional mainstream approach of syncing existing methods with quantitative analysis to explain the phenomenon.

Conclusively, understanding the historical, political, institutional and macroeconomic processes that have hindered the household consumption dynamics will help to ascertain the underlying causes and determinants of household indebtedness and help to explain the implications of the contradictions in the growth in household debts from a historical and contemporary perspective.

- **Research Methodology**

This thesis employs a heterodox approach in investigating the concept of household debt in a timely fashion from the advent of the collapse of the fixed exchange rate system to date. It expounds on the financial liberalisation of the United Kingdom that has encouraged the hegemony of finance and suppressed the working class from the collapse of the Bretton Woods System to the era of bank independence and financialisation. This has increased the use of debt facilities for consumption expenditures of households, augmenting stagnant wages and arresting the declines of income redistribution or inequality.

Research methodology in this context refers to the summation of all methods and techniques that empirically evaluate the principal point of research and the procedures that are used to analyse the subject area of research (Creswell & Plano Clark, 2007).

To this end, the findings in this study are buttressed by theoretical and past empirical studies that view the same subject but used different variables in testing the hypothesis in advanced capitalist economies.

H_0: Null Hypothesis: states that wage stagnation has had no significant impact on the dynamism of household debt in the United Kingdom. The median of household debts during the period of the golden age of capitalism is the same as during the period of liberal globalisation. This approach states that debt-led consumption has had the same impact on the economic proxies as export-led consumption. This hypothesis rests on the notion that the median of the financial proxy during the era of export-led consumption is not significantly different from the debt-led consumption era.

This implies that the inability of households to spend out of their wages has not led to the rise of household debt in the United Kingdom.

I. **H_0: $\mu_1 = \mu_2$**.. **(Equation 1.1)**

Where: μ_1 represent the means of the growth rate of the economic proxy within the period of debt-led as against the means described by μ_2 of the export-led consumption era.

H_1: Alternative Hypothesis: states that wage stagnation has had a significant impact on the increase in household debt in the United Kingdom. The median of household debts during the period of wage growth is different from the period of stagnant wages. This approach states that debt-led consumption constitutes significant influences in its impact on the economic proxies as well as on the economic proxies as well as export-led consumption. This hypothesis is premised on the notion that the median of the financial proxy during the era of export-led consumption is significantly different from the debt-led consumption era.

This implies that the inability of households to spend out of their wages has led to the rise of household debt in the United Kingdom. That is, debt-led demand approach has had a significant difference from the export-led approach.

II. **H_1: $\mu_1 \neq \mu_2$**..**(Equation 1.2)**

1.6 Summary presentation of this Research

This section presents a summary of the various chapters in this work and gives an outline of the contents and contexts of the ideas in this thesis. From the first chapter, it provides an understanding of the factors that have led to the increasing dynamism of household debt in the United Kingdom.

Chapter 2 presents an overview of the various literature looking into the determinants of the rise of household debt in the United Kingdom. It examines the various explanation from both orthodox and heterodox theories of consumption as to the rise of debt and the contradictions in the economic arrangement that has facilitated the unequal relationship between capital and labour in the economy.

Chapter 3 extends the discourse on household debt by investigating the role of financial intermediaries and other related financial organisations in the provision of credit facilities in the Bretton Woods System period in the United Kingdom. It provides an exhaustive view of the phenomenon of high wages in a period characterised by mass consumption and mass production of consumer goods in advanced capitalist economies.

Chapter 4 looks at the compilation of the various demand and supply factors that have led to the increased use of household debt for expenditure purposes in the United Kingdom. Chapter 5 deals with household debt, the falling rate of profitability and the nexus between serving as the conduit for capitalists and speculators to earn a commensurate rate of profit from financial markets rather than the real sector.

Chapters 6 and 7 deals with the conclusion and empirical analysis respectively. It shows that the empirical analysis supports the theoretical and research questions previously highlighted in Chapters 1 and 2 of the thesis.

In summary, this research opens up the historical and contemporary perspectives into the underlying factors that have led to the rise of household debt and the dominance of finance at the expense of real sector productivity in the United Kingdom.

CHAPTER TWO: REVIEW OF THEORETICAL LITERATURE

2.0 Introduction

This chapter provides an understanding of the theoretical framework relating to the dynamism in household debt consumer in a period of globalisation/financialisation in advanced capitalist economies. It looks at the various schools of thought and the literature available in connection with the explanation of the growth of household debt as it approaches financialisation.

This chapter begins by critiquing the dominant classical doctrine approach on the role of debt in the economy, with attention paid to the impact of household debt in the capital accumulation[24] process. It provides an understanding of the political economic narrative drawing on the Marxist approach towards the ascendancy of finance at the expense of manufacturing in the capital accumulation process. The objective of this chapter is to investigate and review established theories of economic growth and the theoretical framework that has guided the social structures of accumulation[25] in these economies.

The dynamism of household debt experienced in the United Kingdom is representative of the changes in the social structure of accumulation, from the post-World War II era of high economic growth rate and investment levels leading to rising productivity, low inflation, unemployment and increased real wages in the economy (Bowles et al. 1990). In contrast, to the neoliberal agenda[26] of the post-Bretton Woods era, with its ideals of financial liberalisation and deregulation of the financial sector as a panacea to arresting the decline in capital accumulation.

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[24] Marx (1867) defined capital accumulation as a process within the capitalist production system whereby surplus value produced in the production process by labour is converted into capital. Marx argued that surplus value itself is a mere congelation of surplus labour time derived in the M-C-C-M circuit, where C is commodity capital, which contains constant capital, c and variable capital, v represented as $C = c + v$. The expression, $C = c + v$ transforms during the labour production process into $C1 = (c + v) + s$. s represents the surplus value accumulated from the employment of a given capital and used up in the production process.

[25] Kotz (1987) defines social structure of accumulation as one that investigates a particular historical period as a distinct set of economic, social and political institutions interacting together as a system in a phase of consolidation that engenders the necessary conditions for generating a persistent form of capital accumulation by regulating class conflicts and competition via the inherent contradictions within that economy. It focuses on the inherent contradictions between labour and capital within the mode of production and the transformations that these changes bring to capitalist economies.

[26] Neoliberal agenda refers to the sum of policies embarked upon by the United States and United Kingdom states under the Dixon and the Thatcher regime to combat the challenges of the 1970s with the notion that these ideals were enough to return their economies on the path of full employment especially after the period of financial crises

Historically, the twentieth century was marked by two economic hegemonies, which generated constant economic growth in different stages of mature capitalism. These periods were marked distinctly into periods of industrial advancement; liberal modernity and its collapse in 1924: mass production and mass consumption of consumer goods and services; demand management and lastly neoliberal financial markets.

Furthermore, the institutional features of capitalism that promoted the Golden Age of Capitalism then became the platform that instigated and guaranteed long-run stagnation and the systemic crisis in the 1970s. Fundamentally, the transformation of capitalism has prompted the changes in the market structure, as well as the role of the state in the production and distribution of resources in the economy.

This section evaluates the two social structures of accumulation and their role in the rise of household debt and the impact on wages and profitability of institutions in the United Kingdom. By looking at the contradictory evidence of high wages in one period and the decline in another period, we can see how this has led to the rise of household debt augmenting their daily consumption expenditure.

The post-war social structure of accumulation and its Keynesian demand management was duly regulated by the state and ably supported by the trade unions, whilst the neoliberal social structure of accumulation was skilfully managed by the market forces and corresponding minimal government intervention (Wicks-Lim and Pollin, 2013). Thus, the post-war social structure of accumulation maintained the Keynesian state-led approach in instigating growth via high employment, low inflation, regulation of business interests and the supply of welfare programs in an economy.

This was in partnership with a powerful trade union and financial sector in delivering economic growth and rapid capital accumulation in an economy, with support from financial institutions – whilst engendering healthy competition between corporations and other non-financial enterprises. There was active interaction between various institutions in promoting accumulation outside of the control of market forces.

In contrast, the neoliberal social structure of financialised accumulation provided a unified platform different from the state-led intervention, with market forces dictating the pace of economic growth via the adoption of deregulation and liberalised financial markets.

This ensured the ascendancy of capital at the expense of labour; promoting capital accumulation; the withdrawal of state participation in providing social amenities in the economy; and the pursuit of profit motive via financial operations, rather than investing in productive ventures (Kotz 2009, p.32).

The move to the neoliberal social structure of financialised accumulation was spurred by the crisis of the state-led demand management which had produced a declining profit rate in the economy. This was further beleaguered by underlying problems of high unemployment and high inflation levels; low economic growth rate; financial instability and declines in capital accumulation levels. The summation of the above-named factors resulted in a profitability crisis in the economy.

Historically, the Keynesian state-led demand management generated an increase in the aggregate demand as the capital and labour relationship was transformed - with the working class receiving higher real wages and greater labour productivity during this regime. As we shall see below, household income during this period was of a higher level than in subsequent periods of accumulation, due to the higher level of distribution.

The liberalisation of the financial transformed the economy and contributed significantly to the level of economic growth in advanced capitalist economies in the 1970s, spurred by the increasing household borrowings and debt as household income stagnated in an era of rising consumer spending. Allen and Santomero (1997) contend that liberal financial markets transform the role of financial institutions and intermediaries by incorporating the household sector in the financial network through credit facilities.

The economy of the United Kingdom in the 1970s abandoned capital controls and its previous restrictions, for a more liberal free flow of capital and credit liberalisation in the financial markets. The easing of financial regulations enabled financial institutions in the Anglo -Saxon economic area to develop at a rapid pace. In turn, households were inundated with financial credits and products, supported by the deregulation policy of achieving maximum utility in stable markets.

The decline of manufacturing and rise of the financial sector have often been credited to the rising level of inequality between household disposable income and the level of profitability in the financial sector during the post-Bretton Woods system. These growing inequalities were indicative of the shift away from the real productive sector and labour productivity to a flexible labour market and the dominance of finance in these economies. This in turn has led to more households to resort to debt to meet their necessary consumption expenses.

Thus, in recent years, the relationship between consumption, aggregate demand and economic growth have been a topical issue at the centre of modern macroeconomic analysis. The implication for households during this period was that they have had to make important decisions on their consumption and spending patterns based on the available income level and borrowing capacity.

Historically, the dominant paradigm in the classical economics[27] school of thought reflects its proposition in debating the role of the financial sector in contributing to output and economic growth in an economy. The primary underpinning feature of the classical school was that productivity could only be achieved through the influence of unregulated competition between market participants with minimal or no government intervention.

Essentially, the notion of market forces determining the level of income distribution and subsequently aggregate demand is a far-fetched assumption of the classical school that does not lead to any significant economic growth. The general proposition is that consumption is a function of income, as income stimulates aggregate demand, economic growth and lastly, financial stability.

Indeed, the traditional macroeconomic growth models of Harrod-Domar[28] and Solow have been unable to explain the relationship between real economic output and the downward trend in labour wages. Particularly, despite the features of these growth models, the assumption that households make rational decisions based on their current disposable income could not validate the consumption pattern seen in this era of neo-liberal financialisation.

This thesis argues that the high growth of consumption expenditure and low wages are symptomatic of the increasing debt of households, wherein these households resort to spending from borrowings and credit facilities extended to them by financial intermediaries.

The argument in scholarly debates is that credit creation, and its constituent platforms, are the right routes to stimulating economic output and full employment of resources. This is evident in that these platforms have been depicted as oiling the wheels of economic progress and increasing households' access to financial institutions through financial inclusion.

Harvey (2010), on the other hand, argues that large-scale occurrences of the devaluation of capital have been experienced more frequently other than the supposed economic growth advertised by proponents of credit expansion. Harvey contended that there had been occurrences of crisis from the years of the Great Depression until the most recent credit crunch

[27] Classical school refers to the collective ideas and ideologies of the first fathers of economics discipline such as Jean-Baptiste Say, David Ricardo, Thomas Robert Malthus, and John Stuart Mill. The ideals of this school of thought revolve around free market economics with minimal government intervention, with rational economic agents maximising their position in an efficient market.

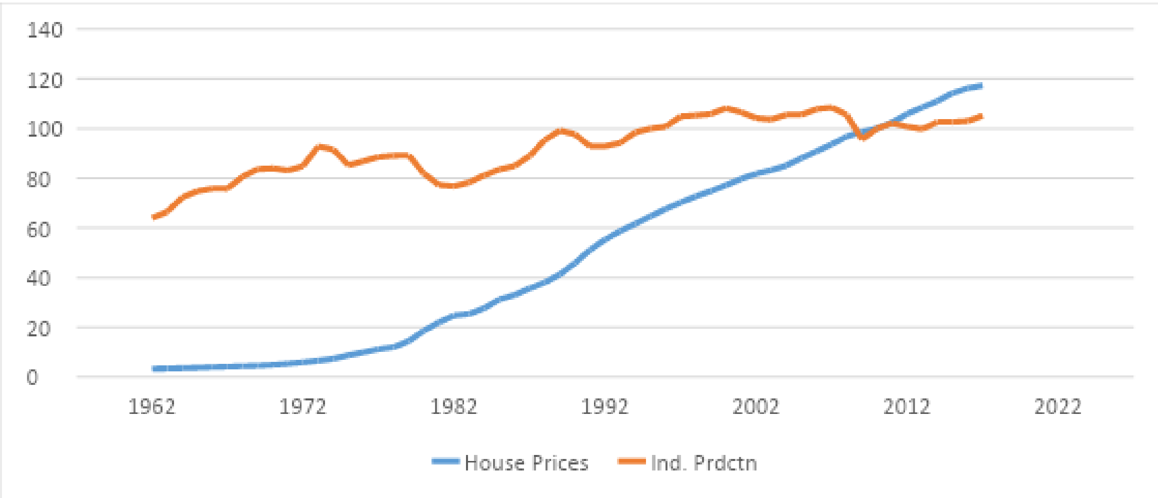
[28] Harrod-Domar's Economica treatise as reported by (Solow, 1956) holds a pivotal role in the growth dynamics of economies, by looking at the rate at which economies change per time. He stated that the impact of the dynamic theory was in line with Keynesian postulates and submissions on economic growth (see (Keynes, 1973b).

crisis in 2007-08, with the slowdown in economic growth alongside speculative capital and bubbles massively inflated by credit creation in advanced capitalist economies.

Essentially, the rising composition of capital has resulted in the stagnation of the economy, profit squeeze and underconsumption which has generated instability and intensified the contradiction between tendencies to overproduction and the contraction in household consumption.

Thus, the notion of increased access to credit leading to economic output is a fallacy in the long-run because the only growth has been the financial wealth claims and not real output as households continue to grapple with stagnant wages and debts incurred to meet with their consumption expenditures. This is reiterated by the growth of finance, insurance, and real estate at the expense of growth in the real sector as evidenced by the graph in figure 2.1 below. The growth of house prices has been steadily increasing since 1978 whilst industrial production has been declining and stagnant since 1980.

Figure 6: Growth Rate of Finance Insurance & Real Estate & Ind. Prod (1995-2017)



Source: OECD (2018), Insurance spending (indicator). doi: 10.1787/adb73055-en & OECD (2018), Industrial production (indicator). doi: 10.1787/39121c55-en (accessed on 30 July 2018).

However, the many benefits and impact of the capital accumulation are reinforced by the proliferation of competitive financial intermediaries leading to the move from real production to FIRE[29] interest-bearing financial activities. Hence, the growth of financial

[29] FIRE refers to Finance, Insurance, and Real Estate and in sum means the ascendancy of finance and the financial sector with reference to the United Kingdom where the share of finance, insurance and real estate has risen much faster since the rapid financialisation project began in the late 1970s and 1980s

intermediaries can also be said to have led to competition within these firms and expansion into lending to households to maximise shareholder value.

Thus, since the 1970s, the rate of growth of industrial production (a proxy for measuring capital growth) in high-income advanced countries such as the United Kingdom has continued to decline with no end in sight, along with the decline in wages and employment figures. The decline in capital accumulation and indeed, the rate of profit, is not in itself an abstraction but a signal to the discontents and contradictions that lie within the capital accumulation process. All these contradictions have led to the unequal and uneven relationship between capital and labour with dire consequences for the working class in real terms.

Moreover, the decline in the rate of profit is a function of a household's inability to create effective demand, as evidenced by stagnant wages and the continued struggle to maintain consumption levels. Thus, these indebted households, stifled by stagnant wages, continue to serve as a platform for financial corporations to expropriate profitability through the provision of credit facilities to them at a lower cost.

The phenomenon of increasing indebtedness of households is particular to vulnerable households with stagnant wages, seeking to maintain their standard of living by requesting loans from financial intermediaries. The financial intermediaries, on the other hand, are seeking to maximise shareholder value and extend loans and credit facilities to these households with no recourse to any factors that may impinge on the successful payment of such loans. Unquestionably, it is a case of households using one form of credit facility to offset other obligations.

Effectively, the capital accumulation process is reinforced through the construction of several factors such as access to credit markets, competition amongst financial intermediaries and lastly, liberalisation of the financial markets which are deemed as necessary tools of output generation[30]

Additionally, Brenner (2006) alluded that high-income economies can continue to enjoy "debt-driven growth" as long as financial intermediaries can play their role of supplying deficit areas with finance through the provisioning of credit facilities ad infinitum in the build-up to economic growth.

There are different arguments within academia with little or no congruence as to the causes and determinants of increasing indebtedness by households in the UK and the world at

[30] An argument highlighted by post Keynesians namely (McKinnon, 1973; Crotty, 2005; Cecchetti and Kharroubi, 2012; Jordà, Schularick and Taylor, 2013) and (Shaw, 1973).

large. This ambiguity has created a void in the literature relating to the grave concerns over the sustainability of continued households' dependence on debt and the implications for the resilience of the United Kingdom economy.

In the first instance, there is the argument from supply-side scholars[31] with their allusion to the critical role that financial markets play by granting market access to households which then augurs well for the economy as it increases the rate of financial inclusivity and mostly expands the economy. Through the deregulation and neoliberal policies of the 1970s and 1980s, this approach - views access to credit as a means by which households can build wealth and stimulate aggregate demand in the economy. The neoliberal policies were indeed touted as a valid route to reaching the unbanked and increased competition between financial intermediaries, which led to the reduction in the cost of borrowing by households and firms.

Furthermore, it has been observed that for any economy to continue to enjoy the benefits of capital accumulation and economic output, these factors must be presented in tandem with the reduction, or complete erosion, of labour power in the capital accumulation process. In high-income economies such as the US and the UK, the suppression of labour power and superimposition of capital in the production process has evolved with the use of innovative systems and technology.

Undoubtedly, the suppression of labour power was further eroded through the neoliberal policy of deregulation of the financial market in the late 1970s wherein there was widespread removal of government control of all financial activities and the yield to a self-regulating mechanism in all facets of economic activities.

This policy led to widespread innovations in the financial sector, which in turn led to financial intermediaries competing for scarce funds from the household's sector in a profoundly depressed interest rates era. The assumption by traditional scholars was that these households were rational utility maximising agents, with the requisite knowledge of perfect information of the cash flows associated with all securities and financial products (Barnes and Young (2003); Debelle (2004); Dynan and Kohn (2007).

Stockhammer (2015a); Stockhammer and Wildauer (2016) asserted that the finance-dominated accumulation regime is presented as the platform by which the working class is

[31] See Schumpeter (1934), (1939); Goldsmith (1969); McKinnon (1973); Shaw (1973); Levine (1997); and especially households' access via these studies Crotty (2005); Rousseau and Wachtel (2011); Cecchetti and Kharroubi (2012); Schularick and Taylor (2012) for more discussion on the role of access to financial development in an economy.

suppressed whilst its surplus value is transmuted to the providers of capital in the accumulation process. This regime was characterised by increased growth and economic boom until economic turbulence, and financial collapse in the 70s and early 80s led to a fundamental shift away from the previous policy of regulated systems and financial markets.

Arguably, this study reveals that the leading causes of household indebtedness in the United Kingdom is the continued extension of banking corporations to expropriate profits from these vulnerable households coupled by the stagnant wages of the working class in the economy.

The increasing competition by financial intermediaries in the financial sector coupled with the poor performance of the real sector has shifted the weight of the burden to households through the multiplicity of credit platforms and facilities presented to the more vulnerable households.

Thus, the reinforcing instruments of declining production domination of finance and stagnant wages have primarily led to the unrestrained growth of household debt and indicates serious danger for the financial stability and economic growth of high-income economies such as the United Kingdom.

To summarise, the chapter itself is structured and arranged as follows; section 2.1 begins with a refreshing discourse of the more traditional theories of consumption ranging from absolute income hypothesis to relative income hypothesis amongst others. The section also depicts the variety of historical content within these theories and the impact it has had over the years in economic theories and the use of household debts.

Section 2.2 provides an analysis of income distribution and its applicability to the field of household debt; it also discusses the contradictions, features and criticisms relative to other theories in the field of consumption and aggregate demand. Sections 2.3, 2.4 and 2.5 provide an alternative discussion of capital accumulation processes and economic growth.

Section 2.6 builds upon the various criticisms of the previous sections, providing a more detailed view of the aggregate demand structure using the Marxist law of the tendential rate of profit in the capital accumulation process. Section 2.9 outlines conclusion and provides a summary of the contents of this chapter.

The next section will highlight the impact of consumption regimes on aggregate economic growth. It will project the arguments generated by different aggregate demand theories and the impact they have had on different scenarios and, more importantly, the consequences they carry for these economies. The impact of wage-led demand and profit-led demand in the growth of consumption expenditures will be discussed visiting the structures behind this form of aggregate demand regime in stimulating household expenditures and economic activity.

2.1 Mainstream Theories of Consumption and Economic Growth

2.1.1 The Free market Approach (Neoliberal/Supply Side Approach)

The concept of aggregate demand and, by extension, consumption in the mainstream neoclassical growth theory is substantively limited because of the assumption that long-run growth of the economy and factors of production always occurs at full employment. Essentially, the neoclassical assumptions of allowing the forces of demand and supply to determine the aggregate output in an economy rest upon the notion that all individuals are rational economic agents with full knowledge of how to maximise their utilities.

The prima facie[32] features of this doctrine lie in the classical theories of general equilibrium wherein all production of goods and services triggers the payment of rewards to the suppliers of such factors of production. Specifically, Say's Law refers supply creates its own demand; such that the total of all prices of goods and services as determined by market forces is equal to the sum of all rewards of factors of production used up during the production process.

Solow's (1956) growth model also corroborated Say's Law by arguing that it accounts explicitly for the supply of all input factors in the production process such that it leads to expansion by way of technological advancement. This expansion effectively grows to meet the required demand in the economy.

This is contrary to the ideologies and submissions of other scholars such as Marx, Malthus or Simondi who opposed the liberals on the theory of the supposed notion of aggregate demand being a function of the markets or self-regulating market forces. Malthus (1827) on the one hand argued that the question of glut is exclusively a question of whether it may be general as well as particular and not whether it may be permanent as well as temporary.

While Sismondi in (Sowell, 1972) argued that the natural path of economic growth is for nations to increase their level of prosperity, which would lead to increased demand and ultimately result in an increase of their purchasing power. The submissions of both Malthus

[32] Literally refers to the Latin expression to express the initial examination of a term with sufficient evidence to corroborate the case.

and Sismondi were to reiterate the idea that the purchasing power of households is directly equal to the value of the output produced.

Luxemburg and Bukharin (1972), considered as Marxist political economists, arguably sought to answer the myriad of questions that several Marxist political economists have sought to explain in relation to the continued accumulation of capital and aggregate demand in various economies.

Say and Biddle (1851)[33] argued that "Supply always creates its own demand" with the notion that the ideal stance in an economy would be for all inputs used in the production process be equal to the finished product. In the context of the neoclassical school and the growth of household debt, they argue that all market participants, namely both the borrowers (households) and lenders (financial intermediaries), are rational agents seeking to maximise their utilities. That is, in an economy, the supply of credit facilities by these financial intermediaries are all geared towards satisfying the demand placed by the households' consumption patterns and can be claimed against expected future streams of income.

Sowell (2015) further enunciated that meeting the supply of credit by these financial intermediaries is further reinforced by the advocacy of neoclassical economists' assumption that all participants in an efficient market are well equipped with homogenous access to all the relevant information. Thus, in a low inflation and low interest rates environment, the supply of credit facilities to the households is equal to the demand for these loan obligations.

The traditional mainstream school sees the continued rise of household indebtedness as caused by the systemic failure of excessive regulation and exogenous shocks[34] to the financial markets and not a result of deficient effective demand as contended by post- Keynesians.

Mainstream economists also hold the doctrine of neutrality of money (Adam Smith, 1776), such that the total of all savings by households and the economy, as a whole, is spent as an investment in the first instance and by extension stimulates growth and the purchasing power of these households.

Additionally, other scholars such as Mill and Lerner (1965) state that as the multiplicity of increased production occurs in an economy, there would be an increase in the growth

[33] This is in reference to the famously quoted expression on the limit to the aggregate output in an economy is premised on the saying by J.B Say wherein he asked "*how could it be possible that there should now be bought and sold in France five or six times as many commodities as in the miserable reign of Charles VI?*"

[34] External shocks refer to the influences of exogenous variables that act to throw the system out of equilibrium. That is, the sudden movements in income distribution of households triggered by the loss of a job or the reduction in labour productivity through government regulation may create an external shock to the expected income of these households.

potential of the economy and rising aggregate demand in the economy. This implies that so long as there is an increase in output, demand would always meet up with the output level and this assumption is often cited as the main reason behind the growth of household debt in the high-income economies.

Specifically, Iacoviello (2008) argument stated that household's access to credit facilities would take different stands in different periods. He argued that credit constraints were less restrictive and more relaxed during the favourable economic period to accommodate an increasing number of loans and advances to the household sector.

Mainstream economists often interpret consumption expenditures reaction to asset prices as the consequence of wealth effect brought about by the increase in the value of financial assets. Therefore, it can be identified that the growth of consumption expenditures leads to an increase in output. In the first instance, Barba and Pivetti (2009) argue that the financial deregulation policy of the seventies by the regulatory institutions have contributed to the increase in household debt as they continue to finance their consumption expenditures via the positive equity of their homes or mortgages.

Additionally, Cynamon and Fazzari (2016) hypothesise that the continued fluctuations in asset prices and business cycles in an economy could lead to asset bubbles and panics -which restricts the output generation potentials of individuals and firms in that economy. They argue that this inadvertently leads to households demanding credit facilities to augment their consumption expenditures and maintain their standard of living.

On the contrary, the evidence presented by the studies of Cynamon and Fazzari provide different explanations as to the composition of household debts. They argue that household debt is brought about not by the wealth effects but by the corresponding increase in consumption expenditures of vulnerable workers whose situation is made worse by stagnant or depressed wage levels (Cynamon and Fazzari 2015, p. 384)

The increasing role of finance has also generated a higher percentage of financial profits; resulting in households increasing their demands for debt to fund their consumption expenditures. For example, in the UK, the percentage of mortgage debt and unsecured debt to personal income has increased astronomically between 1980 and 1990. This trajectory of growth in household debt has not abated and continues to increase at an unsustainable level every period (Muellbauer 2005, p.7).

The increases in the lending activity of this period are synonymous with the recurring theme of easy access to credit and property bubbles, often exacerbating the lending process with household debt in the era of finance domination. This dominance led to it being formalised as a financial system, becoming more pronounced during the financial liberalisation in the 1970s and consequently leading to its downfall in the credit crunch era of 2007/2008.

Thus, the financial contagion of the post-2007 credit crunch era has necessitated the importance of understanding the causes and consequences of financialisation upon households and international political economies. During the period from 1970 to 2007, households were provided with cheap access to credit, to be used in purchasing consumer goods, whilst the capitalists deployed their wealth in speculating on properties thereby increasing the prices of these properties and creating a housing market bubble.

Unsurprisingly, household debt is at an astronomical level globally, especially in the United Kingdom where it is predicted to reach an estimated £2.294 trillion in the first quarter of 2022[35],-with average household debt reaching £84,964 and fewer households able to hold a savings account, let alone make purchases without resorting to the use of credit facilities (Hoelzl et al 2011, p.623-631).

While some studies have shown varying degrees of household debt the impact on the economy as a whole; neo-classical economics often cite the use of maximum utility in predicting household behaviour and their consumption patterns. This analysis is used to explain the rapid increases in household indebtedness and the corresponding influences of income and interest rates on these households in line with the notion of Modigliani (1966), (1986); Miller (2016) Life Cycle Hypothesis[36].

In contrast, studies such as Cox and Jappelli (1993); Guell and Burkett (1994); Bacchetta and Gerlach (1997) and Ludvigson (1999) investigated the correlation between liquidity restraint and the use of credit facilities over a shorter timeline and compared this to a robust framework with a view to explaining the influence of income levels on households.

This study was done to evaluate the views shared by Modigliani (1986) and the veracity of the life cycle hypothesis in both the short run and the long run. The analysis was insufficient, as it failed to solve the predicaments that households have been experiencing in the era of financialisation and financial hegemony.

[35] According to the Office for Budget Responsibility's November 2016 forecast.

[36] Life Cycle Hypothesis according to Modigliani (1966, 1986) implies that over the course of a lifetime consumer expenditure is composed of previous income, current and total wealth. In the analysis, a consumer will consider his available resources, his age and the total return on capital before making consumption decisions.

On the other hand, Duesenberry (1949) argued in his Relative Income Hypothesis[37] that households often compare their level of consumption with other households ("Keeping Up with the Joneses") and may use additional loans to augment the deficit in expenditures and their consumption to fit in with society.

There are empirical studies, both at the unitary and aggregate level, explaining the relationship between consumption and the aggregate level of borrowing by households. Studies such as Livingstone and Lunt (1991) and Roland-Lévy and Walker (1994), readily compare the differences in households and their availability to employ such credit facilities in making consumption expenditures.

It is in light of the above that the last few decades have seen the emergence of financial domination globally. Several authors have articulated that the dominance and ascendancy of finance reflects the transformation of the social and political context within power structures - as determined by the production, distribution and allocation of resources amongst the social classes.

However, radical economists have interjected this notion with a departure from the traditional view, by arguing that a failure of the capitalist system to operate at full output is the origin of this catastrophe, with implications for the households in the first instance and for production centres in the last instance.

This thesis further argues that the underlying structure on which the dynamism of household debt hinges is the stagnancy of wages, income inequality and the ever-expanding role of finance in the economy aided by various institutional forces. Household debt is actually a symptom of the fall in aggregate demand or consumption predicated on the households' stagnant wages and of the expansion of finance globally.

[37] Relative Income Hypothesis according to Dusenberry (1949) implies the process of using social and psychological arguments to explain the consumption behaviour of households. Thus, household's utility level increases if, and only, if its consumption expenditure increases relative to the average consumption level in any economy. In a phenomenon attributed to households "Keeping up with the Jones", lower income households tend to spend a higher proportion of their income in order to mirror the living standards of higher income households.

2.1.2 Critiques of Mainstream Theories of Consumption and Economic Growth

This section looks at the various analyses made by different scholars as to the rise of household debt in the last half decade, in the context of the neo-classicalism school. Markedly, the evidence presented through extensive literature suggests that there is no true consensus as to the real causes and determinants of household debt in the United Kingdom.

The traditional mainstream growth theory of the supply-side free-market approach gives the main reasons for increased household debt as the growth of technological innovation in the financial sector, wherein the utility maximising rational agents are well informed in making decisions that are of core benefits to them.

Essentially, it rests on the assumption that the growth of household debt stimulated by the low cost of capital; the tendency of households to increase their wealth and asset prices in the era of no, or minimal government intervention. Indeed, the drive by financial intermediaries to employ financial innovation to reduce the cost of capital and to improve on the process of advancing loans is a factor in the increasing use of household debts for consumption expenditures.

Arguably, this explanation by the supply-side approach does not account for the historical-cum-institutional factors that have incapacitated the labour force and expanded the role of finance in the economy. The free market approach does not place into context the deficient effective demand by the proletariat,[38] with the result of the unequal relationship between labour and capital.

Neoliberalism,[39] with its postulates of financial deregulation, the flexibility of the labour markets and increased access to financial markets would potentially generate or stimulate aggregate demand, and economic growth has been far from a reality (see the empirical chapter below).

Indeed, the evidence presented from various empirical studies argues that the level of growth attained in the post-war era of Keynesian regulation was higher than the epoch of the neoliberals. The neoliberal era was more of a profit-led era wherein the deregulation policy opened the financial markets to households. Thus, the growth of the neoliberal project has placed finance in a pivotal pole position and given it an essential role in the economy (Hein and Mundt, 2012, van Treeck and Sturn, 2012).

[38] Those who earn their means of subsistence by selling their labour-power.

[39] See Harvey (2003) and Glyn (2007) for more criticism on the literature on Neoliberalism.

This has not only brought the neoliberal project into question, but also pitted it as a platform for speculative trading in financial assets whilst increasing debt levels for households who augment their consumption expenditure from wages often received from flexible labour contracts. The cyclical effects of booms and busts during successive business periods has opened up the financial space, but has also allowed households to trade in the mortgage industry and the capital markets, through the supply of credit and capital injection into the financial institutions which further fuels the bubbles (Kindleberger 1978, p.48).

The assumption of the efficient market hypothesis with its features of flexible labour markets, financial innovations, self-regulated markets, and efficiency all fell into nothingness with the occurrence of the great recession in 2007. Indeed, the level of deficiency in effective demand has been an ongoing phenomenon starting from the beginning of the neoliberal project to the economic crisis of the Latin American 1980 crisis, then on to the 1992 European Monetary System crisis, and the 2001 dot.com bubble, and lastly the 2007 credit crunch crisis. These entire periods of crises sum up the unsustainable rise of household debt in high-income nations such as the United Kingdom.

Harvey (2003) argues that the dynamism in the socio-economic lifestyle of the household has undergone a transformation such that policies that revolve around communal ownership have now been left to market forces and liberals to determine the outcomes of such policies. Neoliberalism, in his world view, is the deepening of the financial system whereby capitalism is elevated into the core of all modes of production. That is, the intensification and dominance of capital within the social and economic space such that it reinvigorates the power of capitalists.

Harvey reiterates his argument within the Marxian analysis by examining the principle behind the rise of capitalism in society. Marx argued that capital is a system or process that encapsulates the entire socio-political and economic life that it creates, and maintains the wage system, transforms perspectives and subtly encourages the diversion of resources from state welfare systems to other uses.

Thus, the import of neoliberalism not only led to the dominance of capital at the expense of manufacturing, it also changed the landscape as more resources were devoted to the financial sector in the wake of the promotion of liberal growth, capital accumulation and restoration of class power. The corollary to this for households in the United Kingdom was the way in which wages were undermined, as the ascendancy of capital was touted and elevated.

In summary, accumulation by dispossession was the term used by Harvey (2003) to describe the systemic processes that the ascendancy of capital has wrought in modern society

- at the expense of manufacturing and consideration of labour power in the production system. This process indirectly places neoliberalism at the helm of every socio-political and economic fibre of the state, with the ascendancy of capital and the steady withdrawal of the state in this role.

In fact, the pursuit of neoliberal policy to stimulate aggregate demand, output and economic growth through the suppression of the working class via wage moderation policies and flexible labour markets has not brought about a more stable and economically productive financial system.

The neoliberal system has been more inefficient and unstable in accommodating the increasing use of debt-driven growth to stimulating aggregate demand and consumption in the economy. The continued use of credit facilities to augment consumption expenditures resulted in the 2007 subprime global economic crisis, which was a function of the inability of the working class to spend out of their wages.

2.2 Alternative Theories of Consumption and Economic Growth

2.2.1 Keynesian Economics

In major capitalist high-income economies such as the United Kingdom, the impact of aggregate demand and full employment is of great importance. Keynesian analysis of consumption theory argues that investment drives demand and determines employment and national output as opposed to Say's Law of Supply where investment always creates its demand.

Thus, the supply-side approach rests on the ability to create new credit - through financial innovation amongst other platforms of the increasing rate of profit and rapidly multiplying capital accumulation process. Keynes (1936) argued that the traditional approach of the banks and financial intermediaries lies in its ability to transform the economic activity of countries to a higher threshold.

The Keynesian approach to the discourse on consumption and output is gleaned from the concept of a unit of account, with the need for a monetary system of production wherein value may be utilised in a monetary economy. Thus, he asserted that a monetary theory of production is one:

"*in which money plays a part in its own and affects motives and decisions and is in short, one of the operative factors in the situation…The divergence between real-exchange economics [that is, those in which money is neutral] and my desired monetary economics is...perhaps most important when we come to the discussion of the rate of interest and the relation between the volume of output and the amount of expenditure…I am saying that booms and depressions are phenomena peculiar to an economy in which… money is not neutral.*" (Keynes 1937, p.665).

Additionally, Keynes postulated on the distinction between a barter economy and a monetary economy wherein the role of money is deemed as not neutral and exclusive in consideration of the macroeconomy as a whole. He argued that "*Our desire to hold money as a store of wealth is a barometer of the degree of distrust of our calculations and conventions concerning the future… The possession of money lulls our disquietude."*

Thus, the two statements above are representative of Keynes' assertions about the composition of money and credit and the role it plays in the economy such that, as rational economic agents, individuals tend to hold money as a unit of account and a store of wealth for payments of items consumed. This position of Keynes is a starting point for the analysis on the impact of money and credit in any economy.

Moggridge's (1986) conception of money in his treatise "*The General Theory*" was consistent with employing the exogenous approach of money as a unit of account: An article may be deemed to have some, of the peculiar characteristics of money 1) if it is regularly used to express specific conventional estimates of value such as religious dues, penalties or prices, or 2) if it is used as the term in which loans and contracts are expressed or 3) if it is used as the term in which prices are expressed, or 4) if it is used as the habitual medium of exchange.

In the first three cases, the article in question is the term in a money-of-account, in the fourth case, it is used as actual money. For the most important social and economic purposes what matters is the money of account; for it is the money of account which is the subject (Moggridge 1986, p.2150)

To a large extent, it can be inferred from the above statement, that Keynes was attempting to integrate the various definitions of money and the context in which money is seen in the economy - often defining other forms of money which fulfil the unit of account description as merely 'offers of contracts, contracts and acknowledgements of debt', which exist 'side by side' with money proper. (ibid., pg.5). Money proper only exists in this context in relation to a money of account, such that the latter is the description or title while the former is the thing which answers to the description (Keynes, 1971).

Accordingly, the acknowledgement of debt is itself a serviceable substitute for money in the settlement of transactions. This is indicative of the role of the new versions of money such as credit cards, IOUs in the present age and time (ibid.,pg.5).

Thus, other forms of money,[40] which Keynes referred to above, are such that it helps in bringing the future to the present because individuals as rational agents think about the future with optimism and that reduces the liquidity premium and enhances production.

Keynes (1973) introduces credit as the release of hoards such that when it is advanced by financial institutions to fund investment projects it returns to the banks through the revolving fund process, and this places no pressure on interest rates. On the contrary, when a portion of the credit advanced by banks ends up as hoards in the circuitry of the economy, investment will be constrained by the lack of finance.

Additionally, in other instances, Keynes uses overdraft facilities as a term to represent credit advanced on demand, *[T]o the extent that the overdraft system is employed and unused*

[40] Other forms here are referred to as credit cards for my emphasis.

overdrafts ignored by the banking system, there is no superimposed pressure resulting from planned activity over and above the pressure resulting from the actual activity. In this event, the transition from a lower to a higher scale of activity may be accomplished with less pressure on the demand for liquidity and the rate of interest (Keynes, 1973b).

Thus, overdraft facilities, otherwise referred to as credit facilities by Keynes, reduce the tendency for hoards to satisfy the financial motive on the one hand, and on the other hand increase the total amount of hoards supplied into the economy. Investment in this scenario would be increased with little or no impact on the interest rates.

Overdraft facilities, during the days of Keynes, were used in production centres to serve as a way of increasing productivity such that producers could use these facilities for their initial expenses before commodity goods were distributed until the final exchange for capital. Keynes wrote*: it is the role of the credit system to provide the liquid funds which are required first of all by the entrepreneur during the period before his actual expenditure, and then by the recipients of this expenditure during the period before they have decided how to employ it* (Keynes 1973, pg. 222-3).

(Keynes, 1936) argued that stable wages of the workers in an economy are necessary for stabilising the prices of goods and services relative to the aggregate demand and full employment of resources. To this end, even though household debt and the trends in today's time and age are entirely different from the debt levels of the Keynesian era, the increasing level of inequality and indebtedness cannot be differentiated from the deregulation of the financial markets which has favoured the financial intermediaries at the detriment of the borrowers.

Keynes' argument was further enriched because the easy access to credit has allowed individuals in the economy to spend more than they earn, which further increases the marginal propensity to consume for already vulnerable, debt-laden households. The marginal propensity to consume, gleaned from the increase in disposable income for these households, is not an increase from income or wages but from easy access to credit which has further engineered the increase in debt of such households.

Keynes stated that consumption is a function of income and that an individual's expenditure will rise in proportion to the level of their income irrespective of their propensity to consume. Thus, Keynes stipulated that the level of consumer expenditure should rise to a level less than the supposed increase in the level of income such that the individual can enjoy the increase in their income.

Unfortunately, the reality of today's economy is that there are no such increases in wages or total income for households other than to augment with debt to meet their daily expenditure. More importantly, the working class of the present decade has been exploited, become incapacitated, and often yields to accepting zero-hours contracts in an attempt to meet its consumption expenditures.[41]

In sum, household debt is antithetical to Keynes' outlook of a society or economy because, with low aggregate savings, the only option is for these households to resort to using debt to satisfy their necessary expenses. In this present time and age, where aggregate demand for goods and services is in tandem with the weak savings level of households; it becomes challenging for households to make any meaningful contribution with the low level of their incomes.

Keynes' postulation of higher income increasing higher savings is not valid in this period because the income received by households is used in servicing debt and rolling over the credit facilities and contractual obligations these households had engaged with in prior years.

Thus, in an economy going through economic recovery, debt payback hinders consumption for new goods which then reduces savings level for households. The continuous expenditure of the vulnerable households in commodities increases their debt level, as they continue to recycle and service debts which further results in low savings. Income inequality also exists as an offshoot of the low savings culture of these households because of the low wages and income levels in the labour market. Thus, households are provided with cheap access to credit markets, and the over-reliance on such debt eventually makes these households vulnerable and living with debt all year round.

[41] See J Aglionby '"One million" UK Workers on Zero-Hours Contracts' Financial Times (London, 5 August 2013).

2.3 Post - Keynesian Economics

The influence of post-Keynesian economics[42] on the capital accumulation process and subsequently economic growth is quite crucial in the distribution of output and national income in an economy. It is often argued by the neoclassical school that the core determinant of economic growth is investment and that investment, when constrained by savings, would impinge on the level of growth experienced by an economy.

To this end, financial deregulation policy became the platform upon which mainstream economists elevated the rise of finance in society. The clamour for increased access to financial markets, free flow of capital and other liberal policies were imbibed to expand the economy during this period.

The core argument in this thesis is that the unsustainable rise in household debt in the United Kingdom has not resulted from the efficiency in free-market economics but from an ideology of capitalism to restore the falling rate of profitability in the real economy through household debt speculation. That is, the end of the high Fordist salaries and the unresolved crisis of over-accumulation became the platform upon which neoliberalism was seen as a response to the massive losses of profitability in the real sector.

Thus, post-Keynesian economists are indeed more synchronised with the principle of sufficient demand and, by extension, aggregate demand in various high-income countries like the United Kingdom; equilibrium output is dependent on demand and not on rational maximising agents as proposed by neo-classicists. The standpoint of this unique school of economic thought evolved from the criticism of Keynesian economics and neoclassical theories of growth, capital and the effective distribution of income and equilibrium output in an economy.

Carvalho and Rezai posit that the Keynesian argument rests on the notion that the role of governance and state regulation cannot be underemphasised, unlike the neoclassical deregulation policy. Indeed, the impact of government in the economy is much felt through the

[42] Post-Keynesian economics refer to the school of thought that effectively represents the works of John Maynard Keynes and Michal Kalecki on the role that effective demand plays in the determination of output or national income. Essentially, the principle of effective demand is at the centre of all macroeconomic activities and in this context determines the level of consumption of households and the output generated within any country. This school of thought argues that investment, which is a necessary tool for output, may be constrained by the availability of credit and not by the level of savings as argued by neoclassical mainstream school.

provision of an environment for the full utilisation of all resources and reduction of unemployment in the economy. This provision has the effect of pushing aggregate private investment to the fore and absorbing the full employment of all savings within the economy (Carvalho and Rezai 2015, p. 493).

Hein (2013) argues that the lower the labour costs in the production of goods and services, the higher the profit that can be expropriated from the production lines, such that increased production increases net exports and maximises profits which are necessary for the capital accumulation process.

Thus, the profit-led economy is predicated on an increase in the labour factor of production which stimulates aggregate demand in the interim and increases the level of investment in that economy. As more labour is employed in the production process at lower wages, it increases the available profit rate of the firm which is necessary for investments.

Essentially, there is a relationship that develops from the interaction between aggregate demand, consumption, income distribution, investments and government expenditures[43] such that aggregate demand in an economy is dependent on the marginal propensity to consume out of wage income rather than out of possible profits.

Additionally, the relationship between income distribution and aggregate demand instigates a redistribution of wages, wherein the lower wages accrued by the working class constrains the available disposable income for consumption purposes for the proletariat but provides greater profits to the capitalists as a reward for their investment in the production process.

The profitability of these economies is dependent on the available level of investment accessible to the productive outfits in these economies - both in the short run and in the long run. This is evident in that as the level of profitability increases, the levels of investment also rise, which has a simultaneous effect on the aggregate output in that economy. Thus, the profit-led regimes are characterised by a capital income-led economy wherein the hegemony of finance leads the growth pattern of that economy such that aggregate demand is stimulated by the level of profitability and the availability of debt platforms to drive economic growth.

There are empirical studies arguing that the impact of profit-led demand regimes in major advanced countries shows a pattern whereby redistribution of income between the profits owing to the owners of capital and the labour, are exhausted in production. Thus, the effect of

[43] In macroeconomics, national income is dependent on the sum of all aggregates of consumption, investment and Government expenditures in a closed economy. Therefore $Y = C + I + G$ where Y=National Output, I = Investment, G = Government Spending.

such redistribution of income between wages and profits depends on the institutional structure, support and historical tendencies of the country (Onaran and Galanis 2012, p.65) and (Onaran and Obst 2016, p. 1517).

To this end, Palley (2017) argues that for a profit-led economy, a redistribution of income away from the capitalist to the working classes involved in production could lead to an expansionary drive as well as an increase in the level of inequality in the economy.

In contrast, the arguments put forward by García et al (2010) state that an increase in profits would help the economy grow into more significant levels of capital investments, whilst Bhaduri and Marglin (1990) argues that most economies not only exhibit wage-led demand regime tendencies but also exhibit profit-led demand regimes in a short to long-term period.

Other studies such as Bowles et al (1986); Bowles and Boyer (1995); Stockhammer and Onaran (2004); Hein and Vogel (2008); Stockhammer and Stehrer (2011); Onaran and Galanis (2014) also highlight the importance of the dynamism in income distribution and redistribution as it relates to the aggregate demand function in an economy.

To this end, the labour share of labour incomes in the United Kingdom[44] has been on a downward spiral since the early 80s, simultaneously leading to the rise of profit-led demand regimes in major high-income countries. Thus, the notion of economic expansion through an increase in investments can only be accelerated through the suppression of the wage income of the working class. A fall in the labour share would increase not only the profit share but also induce an increment in the available investment outflow for economic expansion.

In conclusion, it is argued that if aggregate demand is profit led, then an increase in the capital share of national income should automatically trigger the level of investments and increase the level of consumption expenditures in the economy.

It is to this end that the profit-led regime has been on the increase in high-income countries such as the United Kingdom since the eighties, wherein labour share of national income has been on the decrease, yet national output has not increased to the equivalent level as expected.

[44] Labour share in the United Kingdom has declined steadily to low levels since the advent of deregulation policy in the eighties, with households resorting to the use of credit facilities to augment consumption expenditures as opposed to wage incomes. The labour share measures the fraction of national income accruing to labour Krueger, (1999). The unadjusted labour share is usually calculated as the ratio of total compensation of employees —wages and salaries before taxes, plus employers' social contributions—over a national product or income aggregate (Bottini et al 2007, p.51-82).

The contradictory nature of the profit-led demand regime and national output may be a symptom of the many challenges of capital accumulation in the United Kingdom.

2.3.1 Aggregate Demand Regimes—Post-Keynesian Views

In continuation of the various theories of consumption and its impact on economic growth, this section provides an alternative view on the subject, and evaluates the impact consumption has on the development and growth of real output in an economy. This section will identify the various explanations and economic thinking put forward by alternative schools of economic thought[45] on the dynamism of household debts and the implications changes in income distribution have on macroeconomic output and growth.

The role of income distribution on aggregate demand and consumption in the post-Keynesian[46] school context reflects one of the most profoundly debated subjects in macroeconomics and contemporary capitalism in the last decade. The past few decades have seen the rise of contemporary capitalism with assumptions from the classical school that more flexible labour markets and labour institutions will lead to an efficient economy and productivity growth.

In contrast, the prevailing income distribution and falling wage share as a percentage of total output are incomparable to the tenets of the classical school. The polarisation of personal income distribution and stagnant wages are two interwoven phenomena leading to income inequality. To this end, Atkinson et al., argue that the continued growth of income inequality in this epoch is at its peak in comparison to any other period. Therefore, income redistribution has not only led to income inequality but has also led to a decline in productivity growth and the rise of household indebtedness (Atkinson et al 2011 p. 23)

The post-Keynesian school situates the consumption debate around four features, namely the growth dynamics of an economy over time; functional distribution effects of income; constraints within the model and the microeconomic platforms in economics. In the

[45] This implies the Left, otherwise referred to as the heterodox school, with a different approach to Economics which opposes the classical stance on efficient markets dictating the pace of economic growth.

[46] This refers to the rise of a group of economists with arguments against the neoclassical definition of goods as capital controversy wherefore it was contended that the classical role of national income is related to the combination of workers' salaries spent on consumption and the income derived by capitalists from the ownership of all means of production.

first instance, the growth dynamics revolve around the processes leading to engaging with a historical analysis of investments and savings, at both individual and macroeconomic level.

This further identifies the unequal relationship between the working class and capitalists because as the larger share of the investment-output is devoted to the providers of capital in the form of dividends and profits, the remaining balance is passed on to the working class as wages. The post-Keynesian theory attempts to explain the vagaries of consumption through the framework of profit-led or wage-led demand regimes and through the demand-side or supply-side framework.

As a consequence of the central thesis put forward by Blecker (1998), Bhaduri and Marglin (1990; Marglin and Schor (1990) in the early nineties, provided new research into the determinants of demand regimes of advanced economies and the process of accumulating capital was initiated. The perception is that wage-led economies are predominantly located in developing economies with little access to the financial markets in contrast to the profit-led economies of most advanced capitalist economies.

Stockhammer and Wildauer[47] argue that the prevalent demand regime in most countries is wage-led domestic demand, as well as in highly advanced economies - in comparison to the smaller economies which are more profit-led and susceptible to the influence of foreign trade (Stockhammer and Wildauer 2016, p. 1612).

In contrast, Kiefer and Rada argue in their empirical studies that most European economies are profit led, with a higher tendency to exhibit the features inherent in advanced - capitalist economies, either in the short to long-term period. Additionally, Storm and Naastepad and Storm (2012) also argue that the same scenario plays out in the US, with the profit-led regime being the ruling regime for growth in this country (Naastepad and Storm 2012, p. 216).

Conceptually, the standard macroeconomic growth model proposed by Roy Harrod and Evsey Domar in the early twentieth century was stimulated by the achievements of Keynes in stimulating aggregate demand[48] into full employment. The strategy deployed by Keynes rests squarely on the platform of aggregate demand determining the overall level of economic activity, as opposed to the ideology of the neoclassical school which relied on the market forces

[47] Including other studies such as Hein and Vogel, (2008), Stockhammer et al (2011) and Onaran and Galanis (2012).

[48] This refers to the sum of all consumption and investments in a country or a particular economy without including the autonomous government spending and it is represented by AD = C+ I

determining full employment as long as workers and their wages are directly or indirectly placed under suppression.

The Harrod-Domar model[49] looks at the long-run dynamics of the economic system by placing it on a knife-edge equilibrium growth such that any slight deflection of the savings ratio; capital-output ratio and labour force variable from the midpoint centre would lead to unemployment and long-term inflation.

Thus, the subject of knife-edge balance as expatiated by Solow[50] as equitable to the notion that between the natural rate of growth and the warranted rate of growth,[51] economic growth is dependent on the propensity of households and firms to save or invest the available surplus capital in productive activities. For the economy to enjoy stability firms and households must have some measure of savings and investments (Solow 1956, p.68).

Subsequently, the next section will highlight the various demand regimes and their main arguments or contributions to the debate on consumption, aggregate demand and income distribution. The following section will reveal the impact of the various arguments on the demand regimes and how various scholars have attempted to explain rising household indebtedness in high-income countries such as the United Kingdom.

[49] The Harrod-Domar Model is a dynamic model structured to reveal the rate of growth of an economy or national income (G), as the relationship between average propensity to save (s); and the capital-output factor (v), represented as $G = s/v$.

[50] Solow agrees that the fundamental assumption in the Harrod-Domar growth model is that for this knife-edge economic balance to remain in sync with output, the various variables and factors of production is held in fixed proportions with no possibility of substituting labour for capital in the production process.

[51] The natural rate of growth is composed of the rate of growth of the labour force and the rate of growth of labour productivity determined exclusively by technical progress whilst warranted growth refers to the rate of growth of income.

2.3.2 The Wage-Led Aggregate Demand Regime

The wage-led aggregate demand regime is peculiar in that it holds the assumption that an increase in the wage share of the working class will increase the aggregate demand and reduce the aggregate investment in the capital accumulation process. As the reward of the working class increases, there is a greater tendency for the working class to increase their marginal propensity to consume out of their labour incomes than out of any other sources of income (Kalecki 1954, p.5).

Thus, the wage-led demand regime is not just another rhetoric or phenomenon but a macroeconomic strategy dating back to the predominantly held economic theory of effective demand[52] and the ability to stimulate economic growth in depressed economies. The features of the wage-led demand regime are hinged on the failure of the non-financial firms to stimulate effective demand and the decline of the rate of profit.

The advocacy for a wage-led demand regime from the Kaleckian economist' view rests on the basis that economic growth and capital accumulation is indeed stronger when households can consume out of their wage income (Kalecki 1971, p.3).

Hence, the increase in the wage share of income, coupled with the decrease in the profit share in the first instance, stimulates the capital accumulation process and, in the last instance, creates economic growth. At the same time, there are different arguments about the contribution of wage-led demand regimes to the capital accumulation process, notwithstanding the profit-led demand regimes, in the economy.

The cyclical posture rests upon not just these two regimes but on other factors that belies it. This will be visited further in the empirical chapter on the impact of wages and wage-led expenditure on economic growth. The continued slow rate of growth and low employment of resources defies the contribution of these two regimes in that there is contradictory evidence arguing that wage-led demand regimes stimulate growth, as well as profit-led demand regimes (Hein and Tarassow 2009, p. 730) and Onaran and Galanis 2012, p. 65).

The argument of the Kaleckian growth model[53] Kalecki (1954), supported by Rowthorn (1981), Taylor (1983), Dutt (1984), Bhaduri and Marglin (1990), rests on the influences of the

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[52] Effective demand herein refers to the Keynesian proposal of arguing that the use of excessive savings rate as opposed to low investment rates triggered the low levels of growth in the modern years of economic history. Keynes (1936) argues that, much more importantly, the level of employment in the country is directly related to the level of effective demand for goods and services. That is, people can only demand for goods and services if, and only if, they are employed and possess the means to pay for the goods purchased.

[53] The neo-Kaleckian growth model is a topical theory in a post-Keynesian framework wherein economic growth is classified into either a wage-led demand regime or a profit-led demand regime in the capital accumulation

wage-led aggregate demand wherein the labour share of wage incomes is attributable to the growth of capital accumulation, as opposed to the traditional classical notions of increased profit share stimulating economic growth.

The Kaleckian framework thus became the platform on which most studies such as Hein, Lavoie and van Treeck (2012), Lavoie (2012), Stockhammer (2013) explained the growth of economic expansion and capital accumulation through wage-led demand regimes, as opposed to profit-led demand regimes in high-income countries like the United States.

Specifically, the Bhaduri-Marglin model[54] shows the influences of both profit-led demand regimes and wage-led demand regimes in a way that reflects the changes in income distribution, without accounting for other factors such as the historical and institutional factors that are outside the income distribution space (Bowles and Boyer (1995); Stockhammer and Onaran (2004); Naastepad and Storm (2006).

Contrastingly, studies from Atkinson et al (2011) argue that the income distribution in an economy is due to the sharp increases in top incomes and the propensity for people to emulate the wealthier peers in their social-political strata. Thus, people resort to any lengths to emulate their more affluent peers by spending money they do not possess in a bid to become recognised within the society.

In this way it can be identified how, arguments inspired by Kalecki investigate the effect of income distribution on consumption in the first instance, whilst also looking at the impact income distribution has on the investment level in an economy. The first assertion relates to the fact that consumption is directly related to the wage incomes and profit incomes of an economy, in a way that the marginal propensity to save is lower for wage incomes than for higher incomes. To this end, the consumption function sums up the ratio of wage share increases in the economy.

The investment function is dependent on the output level and the long-term interest rate provided, that the wage rate is reduced or held stagnant because of the expectation that future profits may fall as well. Thus, the classical school assumes that capital accumulation and economic growth is a positive function of the rate of profit such that all the earnings are directly

process. Indeed, Kaleckians argue that the sole contributor to aggregate demand in an economy is the wage-led regime because as an increase in wages occurs for the proletariat, they also increase their propensities to consume out of their wages than from capital incomes.

[54] This framework looks at not just profit-led demand regimes but also the influences of wage-led demand regimes on the capital accumulation process. It argues that a complete framework of both demand regimes is a good starting point in post-Keynesian literature.

linked to the investment expenditures. In other words, all available retained earnings accumulated over prior periods are used to influence the direction of the investment expenditures in the current period (Kalecki 1954, p.7); Stiglitz and Weiss, 1981 p. 400).

Marxist economists in the mould of Feinstein and Dobb (1967) and Goodwin (1967) departed from the Kaleckian framework and argued that a higher wage share restricts the growth of investment expenditures in an economy. Thus, as the investment expenditures are deflated and depressed, there is little or no employment to push wage share higher, and therefore the economy fails to stimulate demand, and consequently, the capital accumulation process becomes stagnated.

Additionally, Goodwin asserted that as the level of unemployment increases, and more resources are brought into the production process, the business cycle begins to rise again, capital accumulation within the business units begin to rise again and aggregate demand for products revitalises the economy until the full economic cycle has been completed (Goodwin 1986, p.16).

Thus, in the tradition of Marxist scholars, an increase in profits will increase economic growth and capital accumulation. This is premised on the back of a higher profit share, leading to higher investment and lastly a higher level of economic growth, unlike the Kaleckians who assert that an increase in wage share will increase aggregate demand. To this end, the effect of consumption on investment cannot be solely dependent on the demand regime but also on other factors outside the realm of profit-led and wage-led demand regimes.

Wage-led demand regimes may be a result of the low competitiveness of domestic demand in international trade, meaning that the net exports rise because of the effect of an increase in the wage share of the labourers involved in the production. This inadvertently increases the cost of production and makes the prices of goods and services less competitive in international markets (Blecker 2016, p. 78).

Thus, the relationship between consumption, aggregate demand and the level of income distribution rests upon the argument that increased output level by a growing labour workforce would yield an increase in labour share and production to a large extent.

Although, the effectiveness of wage-led aggregate demand should increase the overall national output; the resulting level of inequality and stagnation has led to doubts cast over the real impact of wage-led demand regimes in the capital accumulation of high-income economies.

Conclusively, the period between 1960 and 1970 saw the stagnation tendencies of economies coupled with the boom in the housing markets, which led to the build-up of private credits in the hope that rational maximising agents made the necessary consumption led purchases. Households with stagnant wages continued to purchase goods and services with credit facilities from financial institutions. The accumulation of private debt by these households became the platform upon which the consumption boom of the nighties rose to astronomical heights (Stiglitz 2009, p.286).

2.3.3 The Debt-Led Aggregate Demand Regime

The debt-led regime is characterised as the response by vulnerable households to the inefficiencies of wage-led growth to aggregate demand in an economy, wherein households with little labour share of functional income resort to employing debts to augment their consumption expenditures. It will become evident that the discussions above are relevant to the rising dynamics of household debt in the United Kingdom.

The debt-led regime referred to as “Asset price Keynesianism” by Brenner looks at the mode of capital accumulation which fuelled economic growth in advanced capitalist economies in the early to mid-1990s, which was linked to the increasing supply of debt in purchasing household assets and mortgages in particular. His analysis relates to the increased economic growth during this period via the house market bubbles, as well as the increased use of household debt to spur consumer spending in the United States and other high-income economies such as the United Kingdom (Brenner 2006, p. 32)

Other scholars have also investigated the contribution and pivotal role of real estate outside of Brenner’s view on the growth characteristics post-1970s period. “Privatised Keynesianism” was initially proposed by Crouch as a tool to support aggregate demand in ensuring economic growth and rapid accumulation. His focus was to expatiate on the role of credit platforms in spurring economic growth and influencing house prices, similar to Brenner’s discussion on asset price Keynesianism (Crouch 2000, p. 389)

Prasad and Norris argue that the influence of asset price Keynesianism was no more unusual than the role government played in the economy during the early nineteenth century by providing credit to vulnerable households through a welfare system. In recent times in the United States, the welfare system with its public provisioning of general utilities and services has given way to government extending credit facilities via its supranational agencies.

The topical argument enshrined in asset price Keynesianism was the growth of credit facilities and its role in ensuring economic growth and a concomitant rise in house price inflation in high-income economies (Norris 2015, p.229).

The standard framework in household indebtedness as a function of aggregate demand is predicated on the impact that household access to credits has on an economy. Nishi posits that in some instances where wage-led growth is predominant, there might not be any distinguishing feature in debt-led growth because of the increased access to credit facilities.

The above represents a move away from the general notion that as labour share of national income rises, households must be able to spend out of their wage income. The evidence points that even in times of increase in wage income, there has been a reliance on debt facilities to meet the level of household spending in the economy (Nishi 2012, p.612).

Thus, a paradox exists whereby the consistent increase in aggregate demand in the United Kingdom has not been commensurate with the level of the labour share of income which has been on the decline in high-income countries such as the United Kingdom. Households within these economies have been reliant on credit from financial intermediaries to augment their essential consumption expenditures. In this instance, the contradiction that exists within a post-Keynesian framework is insufficient to explain the paradox of increasing aggregate demand since the advent of the post-Fordist era[55] and the decline of the labour share of income in the United Kingdom.

The Post-Fordist era refers to the historical period in which an unequal relationship between labour and capital, instigated by the twin forces of neoliberal deregulation and liberalisation of the financial system, opened up the households to increased access to credit. The impact of this unique access to credit and its implication for the United Kingdom economy is the crux of the next chapter.

For the most part, the rise of the debt-led demand regime in either a wage-led aggregate demand regime or profit-led aggregate demand regime is tied to its impact in increasing national output and capital accumulation of a particular country. The proponents of debt-led regimes have always argued that the inclusion of debt in national output accounting is of significant benefit because of its ability to provide cheap funding at the minimal cost of capital (Hein and Schoder 2011, p. 700).

Additionally, Hein asserted that in most European economies, households were inundated with debt facilities to facilitate consumption and asset booms to compensate for the inefficiencies in aggregate demand. Debt-led consumption and asset booms, coupled with weak labour and investment, led to the decline in output and national income. Thus, the increase in

[55] Post Fordism existed as a regime of accumulation in the 1980s with a view to investigating the impact that high wages, profit and economic growth had on increased output.

the household consumption model as a function of aggregate demand led to households using one form of debt to pay off other debt obligations (Hein 2012, p.485).

The debt-led consumption boom was maintained by wealth-based credit accumulated over time, with increases in these credit facilities and a fall in the cost of capital. All these processes became a platform upon which the borrowing levels of households increased the rate of “fictitious capital accumulation” and economic growth in the short run, within a wage-led post-Keynesian framework as opposed to the other demand regimes in the economy.

In this way, Ranciere et al. (2012); Belabed et al. (2013); Cardaci and Saraceno (2015) argue households were able to increase their level of consumption expenditures; with the advent of liberalisation and deregulation of the financial sector wherein financial intermediaries were allowed to provide credits to households on one hand and increase the rate of capital in the long run.

The debt-led regime is indeed a phenomenon associated with all forms of borrowings by households in a macroeconomic setting such that the arguments put forward by the free market, places debt-led expenditures as the norm - with most people being encouraged to take on as many credit facilities as possible.

The explosion of collateralised mortgage obligations (CMO) and collateralised debt obligations (CDO)[56] remain perfect examples of the periodic bubbles in financial markets; as financial institutions, in a bid to remain competitive and increase the market share of their respective companies, became ingrained into the speculative derivative markets. As the prices of assets of properties increase in value, households are encouraged to increase their level of consumption expenditures and increase the level of credit facilities exposure (Bhaduri et al. (2006); Cynamon and Fazzari (2008); Stiglitz (2010); Ranciere et al. (2012)).

In summary, the increasing use of a debt-led approach for households, as evidenced by empirical studies[57] embarked upon by various scholars, cannot be under-emphasised as it helps

[56] The proliferation of asset backed securities in the early 1980s began as a financial instrument that could aid access to the unbanked but became a tool that not only serve the interests of capitalists and the rich in the society but also morphed into seeds of speculative activities. Fabozzi and Kothari (2008) argue that the level of sophistication and innovation of these financial assets became the platform on which financial hegemony drove profitability in this era.

[57] Studies such as (Hein, 2012a; Cardaci and Saraceno, 2015); (Kapeller and Schütz, 2012, 2014) (Palley, 1994; Zezza, 2008; Kumhof and Rancière, 2010) reiterate the impact of debt-led growth in the economy.

to unlock the impact that debt plays in the economy and the macroeconomic implications for the broader aggregate economy.

2.4 Household Indebtedness and Financial Instability Hypothesis

The various theories highlighted in the previous sections sought to analyse the impact of the income distribution of households in different periods and the responses by various schools of thoughts in solving the challenges of aggregate demand and consumption. Marxist scholars[58] argue that the role of labour in the process of capital accumulation cannot be under emphasised, as they are effectively important in influencing the rate at which savings are utilised in aggregate demand and consumption in the economy.

The procyclicality of the business environment in any period carries the inherent tendency for profit rates to fall, but as unemployment grows, the labour share of income falls, and capitalists' rewards start rising. This instigates the rate of capital accumulation, and the level of profit starts rising as the labour share shrinks. The business cycle thus reflects the execution of the capital accumulation process with an increase in employment and increased profitability, which reinforces the stance that the labour share in the production process is always working class.

Other scholars argue that aggregate demand may be influenced outside of the labour markets with business cycles being influenced by the political intervention in the economy. Kalecki argues that the state might be able to determine and influence the level of aggregate demand and national output in the economy. The political influence in the economy is more of the macroeconomic impact that the state may trigger full employment on the one hand and institute the development of labour markets in another, thus instigating aggregate demand in the economy (Kalecki 1943, p.325).

It is important to state that the actual consequences of mature capitalism not only increased capital mobility but also increased the ascendancy of finance as labour markets were

[58] The Godwin model, as inspired by Marx, institutes the role of labour relations and markets in the capital accumulation process wherein more emphasis is given to the working class than the finance capitalist class. The model assumes that the capital stock is always utilised, and the national output induced by the supply-side approach. The model excludes the influence of aggregate demand and investments in the determination of capital accumulation and national output. Skott (1989) infuses aggregate demand, influence and savings into the model to bridge the critiques and weaknesses of the Marxist model.

duly suppressed, which invariably led to income inequality and instability in the economy and global markets.

Minsky (1986b)[59] puts this into perspective by expositing on the role that capital and finance plays in the determination of national income and the capital accumulation process. This relates to its use as an instrument in financing the acquisition of assets and property with the settling of debt obligations by different parties. Money is thus created through the financing of the ownership of assets, or in the production of goods or services, wherein it serves as the link that bridges the receipt and payments of goods and services.

Thus, it transfers purchasing power from the future to the present, wherein production can be financed and capital assets[60] acquired in a capitalist economy. Production of these goods and services in a capitalist economy brings forth receipt of revenues which is used to settle previous debt contracts. Money takes this unique position in the Minsky analysis, as it conveys the universally accepted form by which all debt obligations are calculated and settled. Minsky's argument is thus set forth as follows:

> *In a capitalist economy, money is tied up with the process of creating and controlling capital asset. It is a type of bond that arises as banks finance activity and positions in capital and financial asset. Money is created as bankers go about their business of arranging for the financing of trade, investment, and positions in capital assets. An increase in the quantity of money through bank lending to business transforms a desire for investment or capital assets into effective demand.* (Minsky 1986b, p. 233-4).

From the above, it can be seen how Minsky reiterated the impact that money has on the acquisition of capital assets and the payment commitments attached to the contract positions

[59] The following section follows Hyman Minsky's approach.

[60] Capital Assets, according to Minsky, refers to the approach that he took in explaining the role of mature capitalism in an economy. That is, capitalism requires long lived capital assets which are expensive and requires position taking in these assets to ensure market power. He argued on the role that spending on capital assets has in the economy as it draws value from the future performance of the assets relative to the amount that was expended in purchasing it today.

Capital assets always infer their value from the future expectations of their value relative to their present value today. The saying was that present income flows today was validated by the investment decisions of the past. Minsky reiterated the impact that financial capitalism has had on an economy and the nexus between finance and investment that has often instigated instability in the markets as well as the economy entered into by economic agents. This highlights that, there is a demand for money to act in a way that enhances payments of financial contracts, such that, all monetary and liquid financial instruments assure the fulfilment of contractual obligations of all parties in any contract (Minsky 1986b, p. 218).

Minsky (1957) contended, in their quest for profit maximisation, financial institutions, also find new ways through banking innovation to fund the demand for loans as interest rates rise in an economy. The innovations embarked upon by financial institutions result in a move away from the relationship between velocity and interest rates such that every constraint by central banks will engender an increase in the interest rates that induces further innovations and therefore increases the velocity of circulation.

Minsky further asserts that the processes encapsulated above through the innovations of financial institutions will trigger instability in the financial system. This happens when innovations are induced by a demand for finance which is difficult to be meet within existing institutional constraints, and thereby reduces systemic liquidity (Minsky 1957, p.862).

Minsky argued that every institutional innovation result in employing new ways of financing enterprise and every new substitute for cash assets decrease the liquidity of the economy. Innovations in this context allow a current level of liquidity system to be funded by higher volume of expenditures; with liquid assets replacing liquid instruments of cash and short-term bank debts in the portfolio. This further destabilises the financial system, as a higher level of instability exists due to the various financial and non-financial intermediary's failure to meet debt obligations, triggering a cascade of failures in the entire system as assets are written down.[61]

The 1929 housing markets collapse is of great importance when highlighting how the challenges that speculative purchase and trading of artificial assets resulted in the economy undergoing a severe crisis. Previously, at the start of the decade in 1920, the global world market was in prosperity with easy access to credit markets at low interest rates.

Financial speculation led many into believing that the market was inherently stable and as such would grow in perpetuity. The integration of many companies into the stock market in the Anglo-Saxon model countries in a period of restrained competition, high unemployment and protectionist trade policies by the government, led to the overall stagnation in these economies. Household integration during this period is also synonymous to its integration to

[61] Debt deflation process as discussed by Minsky (1957) and Fisher (1933).

the financial markets in recent years, with its easy access to credit and mass consumption of consumer products that led to the global financial crisis in 2007.

Minsky asserted that declining liquidity increases instability in the system as assets are continually exposed to the likelihood of deflation of value, in case firms and institutions fail in their ability to meet debt obligations. This is not the case for households who do not have any lender of last resort to fall upon in a case where they are unable to meet their debt obligations and commitments as they arise, which often leaves them worse off than they were before getting the credit facilities.

Minsky developed a complete system of relationship between credit, asset prices and instability, such that rising expectations raise the demand price of capital assets above their supply price which further induces investment in the economy. Internally generated profit finances this investment flow for institutions, but a more substantial part of this investment is financed externally (Minsky 1957, p. 865).

Thus, for households, financing their expenditures and consumption increase is a function of previously held savings as they become more optimistic about future streams of income from their business relations. In other periods, where there is an abrupt cut to these streams of income by the aggregate households in an economy, it only further amplifies the wide macro fragility in the system as households struggle to meet their debt obligations.

2.5 Marxian Analysis of Consumption and Household Indebtedness

2.5.1 A Political Economy Approach to Household Debt, Money and Banking

Conceptually, the analysis of Karl Marx begins with the evolution of financial institutions and the development of their core objective within global financial systems such that they solely respond to the whims and caprices of the capitalist accumulation[62] mode of production.

Thus, its response to the needs of capitalist production is captured with the way that money is employed in the labour theory of value. Marx evaluated his theory of finance in terms of a social relation between money and credit, with emphasis on the processes that result in the accumulation of capital and with money acting as a tool for building capitalist empires.

In approaching the Marxist understanding of money and credit relations, the concept of abstraction must be adequately understood for an informed analysis to take place. The analysis of money helps to place this abstraction in the correct position, using historical processes to explain the accurate measure of money and its relation in an economy.

Therefore, money is a form of value, which is represented not by commodities or veil[63] but by the social relations in which it is employed. Money in this context can only be revealed in its pure form when its evolution and development has been ascertained, and all doubts and mysteries have been removed (Marx, 1973). In other words, the value relations that exist between commodities unveils the mystery behind money and until this relationship is established the attempt to understand money remains impossible.

The commodity in its common terms represents and carries two complementary features or characteristics: in the first instance, it acts as use value and in the second instance as exchange value. The inherent contradiction between these two features help to understand the role of money in mediating between either carrying a use value or an exchange value.

Therefore, use value refers to the means of satisfying human wants and needs which has qualitative functions and is exclusive to the amount of labour that is required to produce it.

[62] Capitalist Accumulation refers herein to the Marxist definition of "bringing together production, circulation, and distribution, while possessing its own internal logic and motives, summed in the self-expansion of value". The expenditure of workers' income, for instance, is only indirectly connected to capitalist accumulation.

[63] See (Friedman and Schwartz, 1982) & (Pigou, 1949) who argued that everyday transactions can be consummated without the numerous and complex problems of enterprise and money such that money acts as veil, as it does not comprise of any of the essential items of economic life.

Exchange value, on the other hand, is quantitative and represents the units of measurement of the use value of an item against another use value (Marx, 1976).

Marx's (1976) central inquiry, nevertheless, was to analyse the capitalist mode of production, by employing a theory of abstract labour and investigating the social relations that exist within the production unit. The Marxist analysis suggests that the exchange value of a commodity is the quantity of the use value that can be traded for another commodity. That is, the value-form, in its fully developed shape is the money-form, which is very simply explained in the theory of money and credit.

Marx therefore, argued that the form of value is theoretically defined as the exchange value which is derived from the existence of money. This analysis and definition of money was placed by Marx in three forms, as defined below:

> *Money…..the universal commodity must itself exist as a particular commodity alongside the others…..*(Marx 1939:165) *the universal equivalent form becomes identified with the bodily form of a particular commodity, and thus crystallised into the money form…..Commodities find their value already completely represented, without any initiative on their part, in another commodity existing in company with them.* (Marx 1867a, p.42)

In one instance, use values represent the utility derived by an economic agent and are independent of the amount of labour that finishes it in production; while exchange values, on the other hand, involve the measurement gauge or tool for which the use values of an item exchanges for another item. Thus, a dichotomy exists between which of the value explanations to employ in the exegesis of money.

Exchange value comes into the transaction process because no commodities can be exchanged, with either of the commodities not having a use value necessary to satisfy a particular need or want. It is in this context that money comes into play, to satisfy both the use of value construct and the exchange value construct. This pits the money and credit relations together in a more useful manner and gives a better explanation for answering the dichotomy in the analysis of use and exchange value.

Marx argues that money and the economic relations in the capitalist mode of production can be explained in three distinct ways: money as a measure of value; money as a means of exchange; and money as money. Each stage is represented by the activities involved in its functions such that it is measured as a unit against other commodities. This, in turn, instituted the abstract labour discussion of money. (Marx 1976, p. 274).

Because all commodities, as values, are objectified human labour, and therefore in themselves commensurable, their values can be communally measured in the same specific commodity, and this commodity can be converted into the common measure of their values, that is, into money. (p. 188)

Thus, in Marxist analysis, the evolution of money was not resident in credit money or paper money or any other type of money forms but on gold (metallic currency) as the final evolutive form. Marx's arguments in the development of the credit system were the inherent contradictions in capitalism; wherein social labour is represented via a commodity namely gold (money) and with which the capitalist system continues to grapple to detach itself from these contradictions.[64]

The above contradictions in the capitalist theory of production give a clear view of the mysteries that exist in the money system, and the placement of value relations in the analysis of money helps to disentangle issues between use value and exchange value. Commodity money has two unique characteristics (use value and exchange value) which reinforces the contradictions in this productive outfit.

The use value represents the various ways by which human wants and needs are satisfied, as it entails the qualitative aspects of life and is disassociated from the amount of labour that produces it; while exchange value represents a mathematical unit of measurement in which the use values of an item is measured and exchanged for another (Marx, 1976, p. 126).

Lapavitsas and Powell argue that the Marxist political economy approach to money is inherent to its view as an integral part of advanced capitalist economies, with a real and monetary basis in its explanation on the ascendancy of finance. The rise of finance has been intricately linked to the various forms of money and monetary policies, with particular reference to the three forms of financialisation (Lapavitsas 2013b, p.799).

Firstly, Lapavitsas asserted that the dominance of finance had been linked to the transformation that has occurred in the monetary sphere, with commodity money gradually

[64] Contradictions herein refer to the various levels of antagonism that exist in different levels of abstraction: from the contradiction between use value and exchange value; between abstract labour and concrete labour; between normal labour and surplus labour and, most importantly, between capital and the working class. Herein we refer to the inherent internal implosion between use value and exchange value which starts as the basis for the ever-increasing need for the capitalist exploitation of the working class.

replaced by fiat money (inconvertible legal tender functional only because the state promises to pay the bearer) since 1970. It is most apparent with the development of the credit money and system, with periodic changes to the role it plays in the economy, as it evolves in modern capitalist economies today. This form of money can be seen today with the introduction of electronic money such as bitcoin, cryptocurrency and other forms of credit facilities in meeting the daily expenditures of households in advanced capitalist economies.

Secondly, Lapavitsas (2013b) argues that the hegemony of private credit money has been supported by state power in acting partly as fiat money and partly also as credit money (generated through credit means from the apex central bank to private banks). This dual role of money has influenced the state in intervening and providing liquidity during periods of crisis and instability, thereby sustaining the evolution and transformation of finance capitalism in modern times.

Lastly, Lapavitsas (2013a) views money in the approach to financialisation, with gold playing a restricted role in international payment systems after the fall of the Bretton Woods system in 1971, and the United States Dollar assuming the role of international payment systems in global transactions. In his world view, Lapvitsas analyses the role that mature financialised capitalism has undergone with the dominance of finance in the late 1970s, after the exchange rate became loosely floating and capital was free to circulate with no restrictions.

2.5.3 The Household Credit System

This section looks at the evolution of debt and its antecedent challenges for the average household, as examined in the context of debtor-creditor relations. Predominantly the section focuses on the commodification of debts and the contradictions inherent in these relations from the post-Fordism accumulation era to the present time and age (Harvey, 1990; Dyer-Witheford, 1999; Virno, 2003; Fisher, 2010).

The Marxian approach to this relation has at its core the historical materialistic approach in which capital transforms itself in its development and circuit of money. The circuit typically sheds more light on the development via industrial capitalists approaching the proletariat and buying its labour power in return for a meagre (subsistence) wage. This labour power is integrated into the production centres, and a product is borne which then sells as a commodity in the market with a value higher than the combined powers of proletariat and means of production. This value is what is generally referred to as Marx's Surplus Value.

The transformation of capital to money capital can be seen by the self-multiplication process where ordinary money enters into the sphere of circulation and, in the process of accumulation, replicates itself into the extraction of surplus value. It is established by the contradictions inherent in capitalist production wherein social relations create a process of transforming money into capital at the expense of the working class.

M-C-M…C'-M' (M+ΔM)

Where

M – C represents Purchase of a commodity "C" by Money "M"

C represents Commodity

C' represents Commodity 2

M' = M+ΔM represents Surplus value

Money can be spent in this form only because labour power is found in a separation from its means of production (including the means of subsistence as means of production of labour power itself); and because this separation is abolished only through the sale of labour power to the owner of the means of production, which signifies that the buyer is now in control of the continuous flow of labour power…. The capital relation only arises in the production process because it exists implicitly in the act of circulation, in the different economic conditions in which buyer and seller confront one another, in their class relation. (Marx, 1864/1978 p. 115).

The main aim of the industrial capitalists is to extract as much surplus value as possible from the working class with no recourse to the class relations exhibited by the transformation of commodity money into full-blown capital. Itoh and Lapavitsas (1998) opine that the composition of hoard money is a process brought about by the turnover of capital which itself breeds into idle capital that could have reverted into productive capital necessary for development and economic growth.

Lapavitsas (2013a) reiterated that "finance and accumulation are two identical twins joined at the hip with the financial system emerging from capitalist accumulation as it shapes and directs the path of capital accumulation".

Thus, the financial system and finance is an amalgamation of several relations jointly linked to one another, which emerges out of real accumulation. Lapavitsas summed up this relationship as the credit system integrating into the more extensive financial system, connecting through a pyramid of credit relations in the credit system.

Lapavitsas proposes that the hoarding of commodity money and other forms of money are integral to the transformation of capital into the credit system - where they become interest-generating financial instruments. This mode of transformation eventually fuels the development of capital accumulation in the capitalist system (Lapavitsas 2013b, p.799).

Moreover, Marx was quick to point out that in the earlier pre-capitalist system, petty producers were engaged with debt facilities because of the need to fund their business activities from commodity money. The exploitation by the capitalist as seen today has no comparison to the borrowing process in the earliest times.

Though Marx spoke about an exciting element, he was merely referring to the interest element attached to the production of commodities. It is entirely different from what takes place in today's modern times where it assumes a complementary role in the flow of money by acting as a unit of exchange sustaining the rate of profit.

Thus, the tendency of the rate of profit to decline has been consistently sustained by financial institutions feeding on households' inability to pay for their consumption expenditures without recourse to support from credit facilities (Fine 2013, p.49).

Thus, as households continue to grapple with declining wages and the high unemployment rate, financial institutions have stepped in to supply these households with credit facilities to augment their consumption patterns.

It is imperative to state at this juncture that even though the approach taken by Fine and Lapavitsas fall under the Marxist theory, Fine's approach differs considerably to Lapavitsas' work on the phenomenon of financialisation. The point of divergence between them is on the production of surplus value and the process through which this is produced in an economy.

Lapavitsas reiterated the Marxist analysis of opposing the placement of banks as intermediary platforms for the movement of funds from surplus areas to deficit areas. He asserted that they were more money-dealing institutions, there to initiate mere transfer and exchange of funds which are antithetical to the production of goods and services necessary for the development of the proletariat and the economy at large (Lapavitsas 2009, p.27).

Thus, Lapavitsas (2013a)) argue that credit structures were established by the growth of loans and advances given out to households for consumption purposes, including a claim on the future income these households can salvage in an era where seeking employment opportunity seems to be erratic.

Lapavitsas (2013) posited that credit relations in capitalism could be understood in terms of the two comparable forms: commercial and banking credit. The borrowerlender relationship situated within the financial institutions' credit is very much different from the sole commercial credit that enterprises try to access.

Additionally, Marx in the statement below reiterated the ills of the continued development and creation of capital in such a form that it absorbs not only the hoarded funds from the bank but other forms of idle funds to accumulate more capital and increase the rate of profit receive by capitalists in this relationship.

"On top of this, with the development of large-scale industry, money capital emerges more and more, in so far as it appears on the market, as not represented by the individual capitalist, the property of this or that fraction of the mass of capital on the market, but rather as a concentrated and organized mass, placed under the control of the bankers as representatives of the social capital in a quite different manner to real production." (Marx, 1981, p. 491)

In summary, postulates of the neo-classical school are deficient in relating the true worth of the phenomenon of household debt as it limits its analysis within the domain of efficient market analysis. The relationship that exists between the loan-advancing institution (banks) and the recipient (working class) is a social one, which finds its existence in the historical and social content of the evolution of money when settling the obligations that accrue per time.

Households have been integrated into the debt system by way of paying a recurring amount of money directly from wages, but the banking institutions are not immune from default payment from these individuals and other creditors. Thus, from the above arguments of Lapavitsas, one can surmise that only the Marxist analysis of the historical context and social relations between money and credit can explain the growth of household debt in the globalisation era and an important variable sustaining capitalist production is the concept of the rate of profit.

In conclusion, the transformation occurring across the economy has altered the social fabric of the state in all areas of human endeavour - with the role of money restricted by the institutional and organisational alignments in the economy providing significant implications and consequences for income equality, economic growth and development. The next section provides the requisite analysis into the role of the rate of profit as both an important variable and nexus in the growth of neoliberal globalisation/financialisation, especially in relation to household debt in the advanced capitalist economies.

2.6 The Role of the "Rate of Profit" and Wage Squeeze in Capital Accumulation

A classic impasse in Harrod Domar and Solow's growth model is the functional relationship between the factor shares of income and consumption, and the economic output in a high-income economy such as the United Kingdom. The trend in recent times is the focus on the redistribution of income amongst the different classes in society auguring well for the level of macroeconomic growth experienced in the UK, since the advent of deregulation and liberalisation of the financial markets. More importantly, the declining rate of the labour share and the consistent rise in income inequality has been a cause for concern for policymakers and the public in high-income economies.

Post-Kaleckian scholars argue that a wage-led approach, when income declines, would result in the contraction of said economy and reduce aggregate demand whilst in comparison, a profit-led approach would induce an economic expansion achieved through the growth in investment income.

However, the productive capacity of the working class is inherent in the pursuit of a better standard of living as opposed to the capitalist's sole motivation of profitability in the distribution of income. Smith ([1776] 2005: 75) puts this into perspective when he argues that: "*it is not as a result of the benevolence of the butcher, the brewer or the baker that we expect our dinner, but rather from their regard for their self-interest.*" summing up the role of profitability in the capital accumulation process.

The arguments of Marx ([1867] 1990) and Hilferding (1910) also support this context in that the primary purpose of the capitalist is to reproduce capital and multiply capital in the realisation of profit. This indicates that in the context of determining the level of growth in an economy, the quest for profitability determines the capital accumulation process and the activities that capitalists are engaged in within the economy.

Additionally, Ricardo (1821) posits that the rate of profit available to the social benefit is dependent upon the amount of labour available to till the land. He contributed to the subject area by instigating the theory of growing corn laws and distribution with specific regards to the regulation of sharing national income between the landowner, capitalist and worker and the theory of comparative cost advantage.

In other words, aside from the quest for the profitability of firms as the conditions that determine the national output of economies, Minsky (1986) argues that the desire by the capitalist to extract past debt obligations for future investments is also one that precipitates economic instability in advanced capitalist economies.

Minsky asserts that the role of the economy to function well is dependent on the ability of the enterprise to earn a return on their investments and realise profit from past obligations in a deregulated financial market. The expectations of receiving debt obligations and profit shortcomings often induce financial instability, which depresses the wage level as more households suffer from unemployment and a lack of other options to earn a decent return on their investments.

Thus, it can be inferred that the suppression of the working class which has led to the shrinking of the labour share of income and the inability to earn sufficient rate of profit, has led to households employing debt facilities for augmenting their consumption expenditures. Thus, as households are incapacitated in inducing the necessary level of aggregate demand, this inhibits firms in producing more goods and services and thereby reduces the rate of profit that would have encouraged the capitalists to plough back funds to accelerate the capital accumulation process in an economy.

The core argument in this thesis is that the unsustainable rise in household debt in the United Kingdom has not resulted from the efficiency in free-market economics but rather from an ideology of capitalism to restore its falling rate of profitability in the real economy, through household debt speculation. Essentially, the end of the Fordist high salaries and the unresolved crisis of over-accumulation became the platform upon which neoliberalism was identified as a response to the massive losses of profitability in the real sector.

Smith held the line of argument that the capital accumulation process is hastened by the tendency of the working class to supply its labour value during production, wherein it can consume out of its net savings rather than on just capital alone. This infers that as long as the productive labour can induce enough savings, then the growth of capital accumulating will increase in line with the growth of labour incomes. The stagnation in the wages of the working class and the continued growth of the capitalist share of the national income depresses the available funds that the labour can apportion for its consumption expenditures (Smith [1776] 2005, p.495).

Smith also alluded to the importance of the financial intermediaries in their quest to move funds from the surplus areas to deficit areas accruing some rate of profit. Thus, financial intermediaries continue to look for viable economic opportunities to invest their capital alongside the real sector that require long-term investments. The quest to earn such short-term high interest and rate of profit induces these banks in highly competitive markets to engage with the household sector, who are already made vulnerable by their stagnant wages.

Though most studies have tried to elucidate the apparent unsustainability of the indebtedness of households in advanced economies, most of these studies were investigated along the traditional school of low savings and agents maximising their objectives.

As we shall see in the following chapters: this thesis posits that the unsustainable growth of households' indebtedness is a function of the historical, political and macroeconomic factors that have shaped the dependence of the working class on credit facilities for its consumption expenses. The end of Fordist high wages and salaries and the unresolved over-accumulation crisis has led households to resort to supplementing their wages with borrowed funds from banks and credit brokers.

Thus, the suppression of the working class has resulted in a low, or stagnant, labour share of national income while the capitalists continue to earn the surplus value due to the working class. In effect, this is the result of financialisation. This inherent functional income distribution is an appendage of the social-political structure of advanced high-income economies, with contradictions that exalts capital at the detriment of labour in the capital accumulation process and determination of aggregate demand.

The social-political structure that brought in the advent of the neoliberal policy of deregulation and liberalisation of the financial markets as enunciated by Shaw and Mckinnon in expanding the role of finance to households, received political support by the Ronald Reagan and Margaret Thatcher administration in the late 1970s and early 1980s. This structure reinforced the expansion of finance and the pauperisation of the working class by transferring surplus value from the working class involved in the production to the capitalists who earn profit from their capital invested.

Thus, this social-political structure only helped to intensify the contradictions within the economic system without addressing the challenges faced by households in the economy. These challenges include the reduction in government spending and public provision of social amenities that have often been the responsibility of the state and are now relegated to the forces of demand and supply. Minsky (1986) and Kindleberger (2005) enunciated these issues have impacted on the economy, leading to financial instability, bubbles, banking crises and income inequality.

The neoliberal contagion in financial markets and global economies has been non-existent in delivering the rewards of its ideals to the general household, but only to a few capitalists who have a shareholding in financial intermediaries in major financial centres of this world. Though the rewards of neoliberal ideologies are embedded within access to financial markets, low cost of capital amidst the free mobility of capital, - and the continued indebtedness of the household sector, the decline in the rate of profit has not delivered economic growth and aggregate demand in the long run for such economies.

To this end, it is apparent that the suppression of the working class through the deregulation and liberalisation of the financial markets led to competition by banks in maximising their shareholder value and to vulnerable households receiving access to funding for their consumption expenses. Thus, credit facilities became hand in glove with households and the financial intermediaries' quest to increase their rate of profit in the United Kingdom.

In summary, Marx's theory provides an appropriate platform for unravelling the causes and determinants of the present crisis as other schools of thought highlighted in the previous chapter have been unable to provide a coherent assumption on the origins and determinants of crises.

Marx (1904, 1977) argues that the possibility of crisis originates from the commodity form at an elementary state which invariably makes the capitalist system very much crises prone in all ramifications. The dialectical materialist approach in Marxist method accounts for the reasons why the expansion of commodity production and labour power into a commodity is subsumed in the production process. The development in commodity production eventually transforms the commodity form into commodity money and engages the social form as interest-bearing capital, capital and fictitious capital.

The next section provides a historical analysis of capitalist crises, specifically using the Marxist tendential rate of profit to fall in explaining the basis of the growth of household debt in the United Kingdom. Marx's theoretical framework is much more appropriate in this context because it subjects the crisis to more critical analysis and unravels the inherent contradictions in capitalism.

2.7 Household Debt, Rate of Profit and Financialisation

2.7.1 Marxist Law of the Tendency of the Rate of Profit to Fall

Following on from the previous section, the tendency for the rate of profit to fall is a very topical issue in the analysis of capitalist crises and even scholars[65] within the Marxist school have argued on the role that it plays in contemporary times.

On one side of the argument are those who have in contemporary times used empirical analysis to show the validity of the law of the rate of profit to fall acknowledging Marx's analysis. On the other hand, is the argument on the "tendency" of the rate of profit to fall as a function of the rising value composition of capital higher than the counteracting forces.

The tendential rate of profit to fall has always occupied a topical role in the analysis of the crisis in capitalist economies and has an inherent tendency for the capitalist system to stagnate as a result of the fall in profitability. The tendency for the rate of profit to fall in Marx's view is not perpetual because the effect of "counteracting influences" on the capitalist system would stop such perpetual downturn or fall.

The analysis and performance of capitalism, according to Marx, depends on the rate of profit such that during a period of high-profit rates, capitalism is booming; investment and living standards are on the increase with low unemployment. On the contrary, when the rate of profit is low, investments are low, and unemployment is often high which results in stagnation and crises. There is an inherent tendency for the rate of profit to eventually decline, even during periods of expansion, transforming such periods of economic growth and boom into depressions and slumps.

Capitalism is thus inherently integrated to the understanding of capitalist economies as they undergo crises, depression, slumps and recessions. Marx argued that the capitalist system is quite a competitive system, with an increasing quest to raising its profit rate by employing efficient methods of production that reduce its cost of production.

The significance of raising labour productivity and technological innovation is to reduce the labour time and increase work intensity, in a bid to maximise the surplus value available in the market. So long as the output is being produced and output is on the increase, the rate of accumulation also increases with the rate of labour productivity.

[65] (Dobb, 1939; Sweezy, 1942, Gilman, 1957; Okishio, 1961, Shaikh, 1978; Wolff, 1979; Mandel, 1980, Roemer, 1981; Bowles, 1985; Foley, 1986; Michl, 1988; Shaikh, 1992; Dumenil and Levy 1993, 1995, 2012)

The falling rate of profit is synonymous to the rise in the mass of profits received in a full working day (Marx, 2010); such that the productivity of labour continually rises, and the equivalent amount of exchange value is expressed by a continuously larger mass of use value as each one of these have a smaller amount of living labour.

The impact is a fall in the surplus value per unit and a fall in the rate of profit as well, adequately summed up by Marx as: "This mode of production produces a progressive relative decrease of the variable capital as compared to the constant capital, and consequently a continuously rising organic composition of the total capital. The immediate result of this is that the rate of surplus-value, at the same, or even a rising degree of labour exploitation, is presented by a continually falling general rate of profit." (Marx, 2010: 211).

Significantly, capitalists are interested in profit maximisation and capital accumulation rather than being concerned by the worker's interests; this motivates them to reinvest their profits and expand the production process all in a bid to make more profits. The role that competition plays in capital accumulation is integral to the profit that is returned to them. As capitalism is inherently susceptible to crises, there are periods in which the capital accumulation is interrupted by downturns and departure from the reproduction process. A crisis "*is precisely the phase of disturbance and interruption of the process of [enlarged] reproduction."* (Marx 1969, p.816).

Thus, expansion in the reproduction of social capital or accumulation replicates the tendency and interruption to this reproduction process and results in crises and is classified as the countertendency. That is, the tendency and crises are intertwined such that as one countertendency is nearing its end, the tendency is beginning a round of capital accumulation.

The drive to accumulate surplus value by capitalists, and the tendency for the surplus value to be relative to the capital invested in falling, is a vital component of the inherent contradiction in capitalism. The labour theory of value provides a fundamental understanding of the regular downturns and crises experienced in capitalism.

The law of the tendency of the rate of profit to fall underlies the argument that in the first instance, all value is created by labour alone, and that capitalism must resort to changing labour with technology to increase the profitability level. Thus, over time the organic composition of capital rises due to the increases in the value of the means of production and the labour used in the production process.

- **Counteracting Tendencies of the Rate of Profit**

There are, however, a variety of counteracting tendencies identified by Marx which influence and offset the law of the tendency of the rate of profit to fall and often make it resemble or act as a tendency in the capitalist production. These counteracting tendencies are the devaluation of constant capital resulting from the improvement in labour productivity; or the rising degree of exploitation of labour; or the depression of wages below the value of the labour power, the effect of relative overpopulation, foreign trade and lastly the increases in capital stock (Marx 2010, p.230-238).

As Marx argued, increased technology is the cause of lower social profits as depicted by the Marxist tendency of the rate of profit to fall. It is evident from technological development that this should naturally lead to efficiency, but because of Marx's counterbalancing tendencies of the fall in profit, it increases the challenges faced in the profitability literature.

The reduction in the welfare system, low wages, increasing global competition, shifting production to lower-wage regions and the intensification of labour, amongst others, represent the various counter-tendencies that may act contrary to the tendency of the rate of profit to fall. The rate of profit underlies capitalist development as the managers of capital seek the commensurate rate of profit on their investments. Section 2.7.2.2 provides further analysis of the role of household debt acting as a countertendency to the rate of profit.

2.7.2 Nexus between Rate of Profit, Financialisation and Household Debt in the UK

This section provides an analysis of the role of the rate of profit as an important variable and the connection between financialisation and the rise of household debt in the United Kingdom. It evaluates the role of Marxian analysis on the impact that the tendential rate of profit to decline has on household indebtedness.

The central arguments postulated in this thesis are centred around an analysis of the rate of profitability and the role of neoliberal financialisation in the growth of household debt especially in the United Kingdom - from the end of Bretton Woods System to the most recent economic crisis in 2007/2008 and beyond this timeline. It is to this end that the analysis of the above concepts and constructs begins with an analysis of the features of the rate of profit and its impact on the Marxian theories of crisis.

Marx's analysis of capitalism is directly related to the inherent tendencies for capitalism and capitalist institutions to be competitive and reinvigorate themselves in the capital accumulation process to maintain the rate of profit. Importantly, a few scholars have reiterated Marx's assertion of the tendency of the rate of profit to fall and the increasing role in the analysis of the capital accumulation process results in an economic crisis (Carchedi and Roberts 2013, p.89).

The fall in profitability has often undergone criticism from other scholars, particularly in the Marxist's domain because of its apparent challenge of indeterminacy. These critiques[66] originate from the stand taken by Marx that the law is a tendency resulting from the rising composition of capital, outweighing all counteracting forces that reduce its impact in the economy. The rising composition of capital represents the ratio of constant capital to variable capital posting higher value than the counteracting forces (which, in reality, results in the cheapening of constant capital).

Hodgson argues that: '*there is no reason given by Marx why the "tendency of the rate of profit to fall" will eventually win out over the "counter acting factors". There is no reason why one has casual priority, is more fundamental than, or dominates the other. Also, the tendency of capitalism to increase labour productivity is also likely to cheapen the elements of constant capital. This cheapening of capital goods may overwhelm the forces acting on the rate of profit in the opposite direction, and the rate of profit may thus rise.*' (Hodgson 2004, p.57-58).

Correspondingly, the ability of the capitalists and capitalism to increase its profitability is key to its survival, especially during commodity production or any form of production. As capitalists increase their technical capacities via innovative manufacturing processes, the net produce is not just the goods produced but also the reduction in the labour costs, which inevitably increases the profit share of income to the capitalists.

Marx (2010) reiterated that the innovative processes that increase labour productivity are not the primary concern of the capitalist but the resulting profit that occurs from increases in output and reduced labour costs. As competition increases, and capitalists fashion more innovative ways to replicate output, the labour productivity increases by almost 50 percent while capital remains constant over time. As Marx argues, the integration of both the means of production and labour (factor of production) per each output increases the technical composition of capital.

Marx introduces the organic composition of capital as an inverse function of the profit rate (synonymous to labour exploitation) and dynamism in the value composition of capital.

[66] These include the works of (Sweezy (1942); Fine and Harris (1976) and Clarke, 1994)

That is, it is directly linked to the changes in the technical composition of capital. Thus, as the profit rate increases or declines, the organic composition of capital decreases and vice versa.

Furthermore, any increases in the productivity of labour hold a negative relationship with constant capital (both the organic composition of capital and value composition of capital declines), and invariably the fall is insufficient to instigate any changes in the current position of capital. According to Marx, the overall tendency is a rising organic composition of capital and value composition of capital due to the technical composition of capital.

> "*To this growing quantity of value of the constant capital—although indicating the growth of the real mass of use-values of which the constant capital materially consists —corresponds a progressive cheapening of products. Every individual product, considered by itself, contains a smaller quantity of labour than it did on a lower level of production, where the capital invested in wages occupies a far greater place compared to the capital invested in means of production.*" (Marx 2010, p. 210).

As highlighted in the previous section, Marx contended that countertendencies exist in the economy and that these counteracting tendencies offset the law of the tendency for the rate of profit to fall.

One of the most impressive countertendencies is constant capital due to the improvements in labour productivity, and the other is the rising degree of exploitation which remains the main criticisms for the rate of profit to fall. These factors are quite central to the criticisms of the rate of profit and especially for this thesis in understanding the rise of household debt in the United Kingdom.

Thus, the neoliberal financialisation of the 1970s and 1980s reveals the dominance of financial motives and financial markets; the quest for these financial institutions to earn a commensurate rate of profit for their business investments implies that improvements in labour productivity and the rising degree of exploitation of variable capital (labour) is at the core of the growth of household debt in advanced capitalist economies such as the United Kingdom.

2.7.2.1 Contemporary Approaches to the Tendency of the Law of Profit to fall

Marx's critical assumptions in the law of the tendency of the rate of profit to fall were examined in the previous section. This section provides context to the examination of crisis and in particular the rise of household debt as an underlying countertendency to the rate of profit

This study analyses this in the context of the changing role of labour productivity (through the competition to make a profit) and the exertion of labour which has seen the tendency of the rate of profit to fall. The section will analyse these assumptions from various contemporary scholars within the Marxist school with regards to the explanation of the rate of profit and its relation to the rise of household debt in advanced capitalist economies.

Roberts analysis of the tendency for the rate of profit to fall is a highly critical explanation of the rise of household debt and understanding of the current economic crisis. Roberts' core argument in the mould of Marx is the increasing search and extraction of absolute surplus value by capitalists in the production process within the real sector. The competition between capitalists in the search for absolute surplus value and technological advancements reduces costs and increases the profit margin for capitalists (Roberts 2013, p.497).

On the other hand, the contradiction between labour and capital; and wages and profits remain significant, as the labour intensifies, and productivity escalated in the production process.

Roberts asserts that Marx's law of profitability can be summed up as the process that engenders capitalism to develop and that, as this development takes place, the amount of constant capital rises in line with variable capital. An increase in the amount of variable labour will produce more surplus value, and the total amount of surplus value falls relative to the costs of capitalists further reducing the amount of profit available to the capitalists. The exception to this fall is if, and only if, the rate of surplus value increases faster relative to other counter tendencies (Roberts 2016, p. 16).

Roberts argued that "*Marx's law of profitability implies that there will be a tendency for the rate of profit on capital invested by capitalists to fall. The formula for the rate of profit is represented by the expression s/c+v; where s is the surplus value appropriated by the owners of the means of production from the total value created by labour; where c is the value of the means of production accumulated by owners;- and where v is the cost of employing the labour force to produce value. Marx's law of the tendency of the rate of profit to fall follows from:*
If c/v rises, and the rate of exploitation, s/v, is unchanged, the rate of profit s/c+v must fall."

Roberts posits that the law operates under four conditions which include; that competition forces capitalists' producers to invest in labour-saving technologies to preserve market share; the value of the means of production consumed (c, constant capital) tends to outstrip the value of labour power (v, variable capital) employed; the ratio of constant to variable capital employed (the productivity or value composition of capital, c/v rises. If the rate of exploitation (s/v, the ratio of surplus value produced to variable capital employed) is unchanged, then the rate of profit, (s/c+v) will fall.

The counter tendencies are a form of cyclical patterns in the long trend fall in the rate of profit because they (counter tendencies) transform the downturn into a crisis with breaks in the accumulation processes. As higher profitability occurs in the realm of production, labour productivity rises and also the working-class demand for higher wages, which puts downward pressure on the rate of profit to fall.

Roberts (2016) argues that the law of profitability by Marx remains the critical theme in the understanding of crises within the international political economy. He contends that the view held by proponents of an under-consumptionist theory of crisis (such as Sweezy) - is not enough to explain the current crisis because as Marx (1971) wrote *"the ultimate reason for all real crises always remains the poverty and restricted consumption of the masses"* was refuted elsewhere as mere tautology.

Roberts (2016) argues that the tendency for the rate of profit rises, particularly after a slump or downturn - but as soon as possible the tendency will overcome any counteracting factors and will eventually rise only to fall in the long term.

The neoliberal period of globalisation remains a valid example of this phenomenon, as the efforts of Anglo-Saxon capitalist governments to restore profit levels via these ideals suffered a setback and remain unable to replicate the growth experienced in the golden years of capitalism. The underlying cause of crises remain low profitability and this is the reason why profit has not returned to previous levels like the golden age of capitalism, despite the ideals of neoliberalism which were designed to boost profit rates.

Lastly, in the United Kingdom, Roberts (2016) in his book "*The Long Depression*" argues that the rate of profit was on a downward trend between the early 60s and late 70s wherein it fell by about 28 per cent, whilst the organic composition of capital rose by about 20 per cent -accompanied by a fall in the rate of surplus value by an average of 19 per cent.

In conclusion, from the mid-1970s until around 1996, the rate of profit rose by about 50 per cent probably due to the impact of neoliberal globalisation/financialisation; the organic composition of capital also rose by 17 per cent and the rate of surplus value by 66 per cent. Thus, between 1963 and 2008 when the global economic crisis hit advanced capitalist economies, the organic composition of capital rose to about 63 per cent while the rate of surplus value rose by 33 per cent, thus confirming Marx's law of the tendency of the rate of profit to fall (Roberts 2016, p. 24).

Brenner Over-production Theory and Rate of Profit

Robert Brenner's account of the long capitalist period and the resulting crisis post the golden age of capitalism in his book '*Economics of Global Turbulence*' invariably shapes his understanding of the role of rate of profit in capitalist economies. He argues that the impact of international competition on the manufacturing sector reduced the rates significantly, when combined with an active wage-push policy.

Brenner (1998) argues that the notion of an unmatched growth and boom in the US in the 1990s was untrue and refutes this because investment grew at a slow rate due to the labour struggle and the fall in profitability. Brenner seeks to construct a historical account of modern capitalism and its development and the role of profitability in this system.

His arguments include overcapacity and overproduction in the manufacturing sector which has persisted since the 1970s, aided by various macroeconomic policies (such as class discipline) by the governments of Anglo-Saxon economies in a bid to sustain the rate of profit in their domestic economies. The proliferation of wage militancy in various sectors during this period was as a result of workers responding to the crisis; rather than wage militancy being the determinants of the ensuing crisis in these economies.

Brenner's (1998) account of his overproduction theory is reliant on foreign competition, in direct contrast to the view held by Baran and Sweezy (1966) who consider the role that free competition has in reinstating free competition which invariably, in their view, leads to crises. Meanwhile, Brenner (1998) argues that, post-World War II, the low-profit rate in the United States' real sector (manufacturing sector) was owing to the intensified inter-capitalist competition between other caucuses of capital accumulation, particularly Japan and West Germany.

The profit rates were further depressed as a result of the cheap cost of producing the same goods in Japan and Germany, which saw a decrease in the cost of consumer goods and by extension decreased consumption of US exports and reduced the attendant profit rates.

Domestic manufacturers survived this period of overproduction despite the high cost of production and the competition from other competitors in Europe and South-East Asia. The initial investments in fixed investment by these US manufacturers were accounted for by the relative access to cheap credit in the first instance and the employment of highly skilled labour.

Unfortunately, the intensified competition by these other capitalist economies eventually led to the introduction of technological advances on the shop floor to reduce the cost obligations and increase profit rates. This level of competition eventually led to low-profit rates and the slump experienced by the United States and other capitalist economies in the 1990s.

For the most part, Brenner's historical account acknowledges the significance of the rate of profit in understanding crisis theory as he argues that intensified competition remains a central theme in the low profitability experienced in the 1970s and even to date. It is in direct contrast to the view held by the under-consumption school who view realisation challenges as a determinant of crisis theory.

On the other hand, Clarke (1994) in his book "*Marx's Theory of Crisis*" argues that the tendency for rate of profit to fall is not the premise for the Marxist Theory of capitalist crisis and criticises the arguments proffered by Brenner in the tendency for the rate of profit to fall. He departs from Brenner's inter-capitalist competition, by arguing that the determinant of the rate of profit to fall is not determined by ruinous competition but that capitalism revolves around two major issues *"the tendency to expand production without regard for the limits of the market", and "the uneven development of the forces of production"*.

Clarke also argues that Brenner's claims about the reduction of average profit rate as a direct result of competition might lead to a gradual but smooth replacement of old equipment by new materials because sudden great bursts of innovation could lead to crises and shocks within an economy. Clarke asserts that the notion of the profit rate falling does not provide an explanation into the ensuing crisis but rather represents a cause of the crisis.

Additionally, Shaikh (1978) contends that capitalists are primarily concerned with the quest to increase their profitability - usually achieved via class discipline in which the capitalist class requires the continued existence of the working class to exploit labour wages.

On similar grounds to Brenner, Shaikh argues that the falling rate of profit is lowered because of the level of competition capitalist states in global markets and sees large investments in fixed assets in order for these capitalists to increase production level at a reduced cost and thus gain an edge over their competitors though at reduced profit level (Shaikh 1978, p.231-235).

His arguments are based on the assumption that an excessive rate of innovation will exacerbate the introduction of new technologies that will cut labour time in production and provide some savings, but inadvertently also impair the profitability and exploitative tendencies of the capitalist class. Thus, in a period of economic prosperity and boom, the above processes always result in a gradual fall in the rate of profit but not an economic crisis.

In contrast, Moseley (1997) argues that the underlying trend in the rate of profit to fall could be found in the level of unproductive labour that does not produce surplus value and the inability of capitalists to extract surplus value from unproductive capital usually results in the rate of profit to fall.

In examining Brenner's thesis, Moseley posited that the adoption of new technological advances might reduce the unproductive capital in the economy and cause the profit rates to increase in the economy. He argues that Brenner's stand on the impact of sharpened competition reducing the general rate of profit is hinged on real wages rising as well. Additionally, he reiterates the fall in both the non-financial sectors and financial sectors as a result of the increased competition and the impact of the increasingly high proportion of labour that is capitalistically unproductive.

2.7.2.2 Household Debt as a "Counter-Tendency" in the Rate of Profit

The post-World War II period saw the dominance of US capital globally, accumulated via the effects of the Bretton Woods agreement which established United States capital, the US dollar, as the international reserve currency and regulate financial flows. The profit rates in advanced capitalist economies rose as a result of technological advances from the military which was now invested into labour productivity. The increased labour productivity resulted in high growth rates and eventually, through the efforts of Fordism, gave rise to the economic miracles often referred to as "the golden age of capitalism".

The end of the golden age of capitalism with its features of: full employment, high turnover rate, rapid economic growth and the expansion of the welfare system, saw the fall in profitability of major advanced capitalist economies globally. As argued by Marx, the increase in the organic composition of capital was as a result of the increases and investments in technological innovation and new markets - which increased labour power and strained the share of profits accruing to capitalists. This invariably reduced the percentage of surplus value necessary to compensate for the increases in the organic composition of capital.

As other capitalist economies in South-East Asia and Europe began to compete for markets amidst cheap labour costs, the profit rates in advanced capitalism began to fall by Marx's law of the tendency of the rate of profit to fall. Between 1965 and 1982, the rate of profitability in advanced capitalist economies, as provided in the graph below, experienced a downward pressure and resulted in the stagflation crisis of low growth and high inflation.

Thus, as depicted above, the crisis of profitability during this period produced the slump experienced in the productive sectors of these advanced economies as factories closed and old industries and companies went bankrupt, resulting in mass unemployment and the loss of unions, embedded demand management and the eventual disposal of labour productivity deals.

The departure of the features of Keynesianism by Reagan and Thatcher governments in the United States and the United Kingdom saw the removal of all the gains made by labour during the golden age of capitalism through embedded demand management and compromises between various stakeholders in the economy. This saw the dominance of capital achieved via neoliberal policies of globalisation and financialisation.

The rate of profit was restored temporarily as the rate of surplus value in these advanced economies became more significant than the increases in the organic composition of capital; whilst the cheapening of constant capital as technological advancement ensured the downward pressure on the organic composition of capital to rise at all. The increase in profit rate was concentrated not in real productive centres of the economy but strictly in the financial sector, particularly in finance and real estate speculation.

As depicted in the figures in the previous sections, the rise of fictitious capital, especially stock market indices and bond market assets, has been quite steady since the era of bank independence, with financial institutions also seeking higher profit rates through household debt speculation.

As Marx (1976) argued, *"In practice, however, the rate of profit will fall in the long run"* as the effect of counteracting influences cannot continue indefinitely without falling to the law of profitability exerting its downward pressure on it and causing it to fall in the long run. The impact of these countervailing influences to offset the tendency for the rate of profit to fall by the adoption of the neoliberal policies of deregulation and liberalisation of the financial markets, unleashed the credit markets and expanded speculation in financial instruments such as mortgages, swaps, derivatives, insurance obligations and other debt securities.

Roberts argues that the rate of profit in the United States has been on a high but slowly decreasing in a downward pressure since the end of the golden age of capitalism between 1965 and 1982. It shows that during the period of neoliberalism, it rose briefly especially between 1982 and 1997, but after that, it has again continued its downward pressure (Roberts 2016, p. 20-22).

In conclusion, the countertendencies, in whichever form, always attempt to temporarily restrict the law of the tendency of the profit rate to fall but in the long run the law triumphs, and the rate of profit falls. The counteracting tendencies always act to offset the tendency of the rate of profit to fall temporarily and these counter-tendencies include the cheapening constant capital through innovative technology; greater exploitation of the working class (falling wage share) and speculation in unproductive sectors especially (finance and real estate speculation).

As highlighted above, the countervailing tendencies resulting in a high rate of unemployment and weakening of the growth potential of labour power, coupled with the adoption of neoliberal globalisation as a policy to restore the rate of profitability is more synchronised to the expansion of credit markets - mainly household debt speculation.

2.8 The Rise of Household Debt in Three Distinct Periods: 1920s, 1970s, 2000s

This section reviews the rise of household debt and financialisation in the 1920s and its differences and similarities in comparison to the 2007/2008 global financial crisis. It examines this in the context of the incessant and the unsustainable growth of household indebtedness and the accompanying crisis during these periods.

It alludes to the financial crisis that originated in 1929, known as the "Great Depression", which was one of a kind in the annals of the history of industrialised nations, with significant implications for households and the financial system at large. The crisis started after the stock market crash in October 1929 after a period of unusual growth of financial assets and finance ascendancy, with a number of factors undergoing decline; from the fall in output to decreased investment spending, which in turn was instigated by the constraint in consumer spending evidenced by low wages due to the high unemployment levels in the economy.

Piazzesi et al. contend that the shocks experienced in the economy, especially the stock market and real estate shocks instigated by the crisis in the years of the Great Depression, also reflect the parallel drawn in the recent global financial crisis that originated in the subprime housing markets in the United States in 2007/2008 as alluded to by the duo of Reinhart and Rogoff thesis. (Piazzesi 2007, p. 534).

The early 1920s was a significant period with rapid expansion in the economies of major advanced capitalist nations, with economic expansion in all areas of macroeconomic activity in these economies. In particular, the Anglo-Saxon economies were integral to the development of the financial systems with these economies heavily involved in the stock market, and wealth returns were on a high in these nations. The growth and development of household wealth during this period engendered the interest to buy houses using bank loans extended by financial institutions, which then laid claim to households' future expected incomes.

Additionally, the slowdown in production and downturn in the economy meant that there was a general negativity and pessimism that enveloped the country and resulted in the layoff of workers during this period. The resultant impact on the household was stagnated wages, meaning they resorted to employing credit cards to support their daily consumption expenditures.

The impact on global markets resulted in a transformation of economic institutions, macroeconomic policy and social structures in advanced economic nations as the deflation in the countries ensured that output and unemployment was at its lowest ebb in economic history.

In Great Britain, the low level of growth and recession resulted in declines in industrial production and a fall in prices during this period as well as in other countries from the United States to Germany, France and Japan all experiencing the same bout of instability in their economy.

The impact of instability was severe in Anglo-Saxon economies, with the additional banking panics that spread globally due to the global adherence to the gold standard which extended the depression in various countries to differing lengths and sizes. Although the Great Depression began in 1929 in the United States, the impact was not felt in the United Kingdom, Japan and France until 1930.

A plethora of studies[67] investigating the importance and significance of housing cycles and the crisis in the nineteenth and twentieth century all allude to the time frame, returns from the value of the housing market and the price of real estate as important factors that contributed to the signals that brought the years of the Great Depression. The fall in the price of real estate and the lax regulations in the housing market contributed to the severity of the Great Depression in Anglo Saxon economies.

Furthermore, households experienced a significant shift in their household's balance sheets as a result of the prevailing macroeconomic conditions in the economy during this period; which further prolonged the stock market crash in 1929 and exacerbated the recession in the economy.

Goetzmann and Newman (2010) argue that speculative trading activities in real estate equities were responsible for the economic boom and growth experienced during the early 1920s, which, coupled with unregulated lax regulation, led to the Great Stock Market Crash and the Great Depression.

In contrast, the global financial crisis in 2007/2008 was predicated not only on asset price inflation, housing market declines or current account deficits but also on the increasing indebtedness of households and the credit market expansion. Also, the fall in employment and output level in the economy is supported by a stagnation in wages that exacerbates the households' spiral integration into debt to support their consumption expenditures.

[67] Long Jr (1939) investigated the housing and business cycles in the United States as Kaiser (1997) provided the time frame that the returns from real estate are gathered, to form a significant signal that Wickens, (1941) argued culminated in the Great Depression. Hoyt (2000) went on to argue about the prices of real estate and Field (1992) on the lax regulation in the allocation of housing land during this period.

Arrighi (2007) makes his argument using his theory of systemic cycles of accumulation[68] which accounts for the dynamism of financialised capitalism with its distinctive stages of hegemony which invariably changes the landscape and initiates more expansive capitalism until it collapses in some form of crisis or bubble.

In Britain, the transformation of the systemic cycle of accumulation was imitated by the inter-capitalist competition which reduces profit whilst also encouraging the move to the realm of finance capital as the sphere of accumulation. The economic crisis in the last century, from the Great Depression in 1929 to the Great Recession, offer similarities that preceded each crisis, namely in the growth of wage inequality and increased indebtedness of households in this period.

Conclusively, the financial fragility experienced during the global financial crisis was a function of the income inequality and expansion of credit markets that led to the integration of the household sector into the financial markets, following the neoliberal project of deregulation and liberalisation.

These policies ensured that the level of financial institutions and industry share of GDP increased astronomically in advanced capitalist nations with the level of innovation of financial products and the under-pricing of risk[69] being significant in the build-up to the 2007 financial crisis. Coibion *et al.* (2014) contend that the increasing trend of financial intermediaries to supply credit facilities in an economy led to the accumulation of debt patterns and eventually instigated the last global financial crisis in 2007.

[68] See Arrighi (1997,2004) for a full description of the systemic cycles of accumulation in Britain and the world at large).

[69] The use of complex financial engineering models and strategy in pricing risk led to overconfidence in the trading of some securities.

2.9 Conclusion

The above chapter approached the concepts of money and credit from various schools of economic thought and explored the differences and overlaps of these schools in relation to household indebtedness. It looked at the various arguments posited by each school of economic thought from the classical school to the post-Keynesian and identified the overall literature gap within extant literature about the role of money in an economy, whilst reviewing alternative approaches to money and banking.

The review considers the economic analysis of the last few decades, starting with the controversies of the banking and currency school in laying the foundation for the concept of money in financial institutions. It also places the institutional events into context; the inconvertibility of banknotes into the gold system and the integration of money and credit into monetary systems. It specifically reviewed the impact of debts; interest rates volatility and balance of payments deficit but with a broad outline of the influence it has had on household consumption patterns.

The mainstream economic approach to money revolves around the concept of rational maximising agents to explain the components of money and the relationship that exists between the economic agent's rationality and the credit markets. This chapter argues that the mainstream approach is deficient because it is exclusive of the macroeconomy in the first instance and that the consumption behaviour of one individual should not suffice for the general economic consumption behaviour of the larger population. The neo-classical school still could not predict the global financial crisis that originated in the United States and impacted on other advanced high-income economies of the world.

Thus, the mainstream approach, though laudable in its analysis, is also not suitable for the analysis of credit systems because it fails to examine credit relations in the right context of explaining the continued indebtedness of households.

Though this review does not cover the entire theoretical landscape; it provides the main thread of arguments employed by various theories in explaining the rise of household debt. The chapter serves as a platform to investigate the role of both the demand and supply side of credit markets and evaluate the implications and consequences of consumer indebtedness.

Additionally, the classical school argument of identifying wealth as money and then money as a tool used in stimulating aggregate demand and economic growth is deficient because the money goes beyond the definition applied in the quantity theory of money. Money, as discussed in the quantity theory of money, is seen as the thing that facilitates the exchange of commodities, without explaining the components of money or the social relations that money carries. It only recognises the function of money as a means of exchange used in sustaining a perfectly harmonious relationship in an economy.

In response to these deficiencies, the Marxist analysis lays a foundation for the historical and socio-economic relations of money and credit as a system of addressing the inherent contradictions and discontents in the capitalist mode of production. This is necessary as a way of unravelling the complexities of the means of exchange (credit money) in an unstable and crisis-ridden capitalist economy.

The capitalist mode of production, as it relates to money and credit, originates from the transformation of money to capital by capitalists such that money meant for production is diverted into an interest-bearing financial instrument throughout the transaction (Itoh & Lapavitsas, 1999).

Additionally, the neo-classical school approaches financial institutions from the perspective of being intermediaries in a financial market integrating capital into the interest credit system and the circuit of money. Thus, this analysis is analogous to the deepening relationship between capital and labour as a way of regulating the exchanges of wealth between the capitalists and the working class.

Most importantly, the Marxist theory of crisis as explained by Marx in Volume 1 of Capital provides the best account of the current crises as explained by the movement in the tendency for the rate of profit to fall in the capitalist system. The movement of the rate of profit is a critical component of capitalist economies, and its features are central to the understanding of crises and profit determination during the process of capitalist production and capital accumulation.

PART TWO

HISTORICAL AND EMPIRICAL INVESTIGATION OF THE UK ECONOMY

CHAPTER THREE: HOUSEHOLD DEBT IN THE UK UNDER THE KEYNESIAN/FORDIST REGIME (1945–71)

3.0 Introduction

This section examines in detail the origin and history of household debt and its continued trajectory in advanced capitalist economies during the period of the golden era of capitalism,[70] both from a historical and up to date perspective. The section starts with the analysis of the origins of in 1945 up to its demise in 1971 after the collapse of the Bretton Woods System of fixed exchange rates, which suppressed finance in the United Kingdom.

The chapter posits the "past" in the light of the "current" by identifying the proximate causes and determinants of household debt, which are a result of the unresolved crisis of over-accumulation of the 1970s and the falling rate of profit. The twin phenomenon of the unresolved crisis of over-accumulation of the 1970s and inability of the capitalist enterprises to sustain its profit rate during the Fordist regime[71] has cultivated the dynamism of household debt and widening inequality in the United Kingdom.

The Fordist/Keynesian period typifies four significant phenomena namely: the mass consumption and mass production of consumer durable goods; supported by the technological advancements of industrial machines; operated by a semi-skilled labour force; resulting in a steady growth of output and economic growth. This process was aided by the separation of ownership and control of multinational corporations by the state, resolving all conflicts between capital and labour.[72]

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[70] In short I define this term "Golden Era" by drawing on the works instituted in 'The Golden Age of Capitalism' edited by Marglin and Schor as a concept embodied within demand management in the advanced capitalist economies of the US, Europe and Japan with fast paced economic growth and development. These economies enhance the capitalist accumulation process via a host of platforms such as allocation of credit, interest rate movements and massive government spending to maintain full employment, economic growth and output. Some critics also argue that this rapid economic growth was not experienced by all countries and the term should be cautiously used for a period of rapid economic growth.

[71] In general terms, I draw from the accounts of the French regulation school comprising of Aglietta (1976); Boyer and Mistral (1978); Lipietz (1985); (1998) and Boyer (2000) in describing Fordism as a macroeconomic structure and regime of accumulation but with a distinct explanation of other factors that might have accounted for this phenomenon not previously identified by this school or any other school (Armstrong et al. 1984; Bowles et al. 1983; and Rowthorn 1980) for that matter.

[72] A view shared by Jessop (1992).

The dynamism of Fordism[73] and the Fordist regime during this epoch was directly linked to the functional relationship of the Keynesian welfare state to manage labour wages and labour policies in the first instance, whilst controlling the level of aggregate demand in the economy. That is, Fordism and Keynesianism became the twin platforms upon which the state was able to guarantee stable economic growth and guarantee the livelihoods of the working class during this period.

The combination of Fordism and Keynesianism as an ideology outlined the function of the production of consumer durable goods and their mass consumption by households earning working-class wages to smooth out economic fluctuations via the Fordist mode of growth achieved by the state. This Keynesian welfare policy of the 1960s and 1970s helped the Fordist regime to achieve economic boom and full employment.

The main characteristics of the golden age of capitalism as argued by Marglin (1986) were the rapid growth of productivity, capital stock per worker, high economic growth rates and growth in real wages significantly increasing profit rate, consumption and production. The golden era not only increased the domestic market due to the rate at which domestic demand increased the market globally via international trade as labour productivity increased and the rate of capital accumulation spurred into greater heights.

This concomitant growth of labour productivity not only fostered growth domestically via the mass production and mass consumption of the American model in Europe but also triggered the unprecedented high rate of capital accumulation per worker in advanced capitalist economies such as the United Kingdom. McCracken et al. (1977) argue that the average annual growth rate during the golden era of capitalism was an average of over 4 per cent in the 1950s and approximately 5 per cent in the 1960s - compared to the meagre 3 per cent achieved in the 70s and 80s.

Furthermore, the significant growth in mass production characterised by the post-war period of expansion and prosperity in the world economy, ably supported by the high growth of consumption expenditure by the household sector, helped to sustain the economic growth and profitability of capitalist enterprises. Importantly, Marglin (1986) posits that the period starting from 1950 through to 1973 saw a marked increase in the level of economic stability and low unemployment with consumer prices rising higher than in previous decades.

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[73] Fordism-Taylorism I shortly defined in the mould of Jessop (1991a), (1991b) as "a distinctive type of labour process [or industrial paradigm], and macroeconomic concept of mass production, increases in labour productivity achieved via the Taylor system, with mass consumption of goods, high wages and salaries and increased profits based on the innovative factory machines and constant investments in the machineries and strategy to achieve high output during this period."

Table *1* - Index of Wholesale and Consumer Prices in Selected Countries

	Index of wholesale prices in 1949 1945 = 100	Index of consumer prices in 1948 1937 = 100
France	511	1,900
United Kingdom	122	180
Belgium	290	400
United States	146	166

Source: Adapted from Van der Wee (1986) "*Gebroken welvaartscirkel"*

Consumption during this period was quite low in Britain compared to France and Belgium, as Britain posted a significantly high rate of consumption per head and inflation. The inflationary trend in the US made European imports less viable as they became uncompetitive owing to high prices, leading to an acute dollar shortage in the global markets.

The United States, in a bid to arrest this adverse situation, proposed a Euro-centric aid programme to stimulate economic growth in the European nations. The European continent received funds from the Marshall Plan[74] to assist with the resuscitation of the London money and capital market by helping to finance global trade and economic expansion between nations.

The inflation rates in South-East Asian countries, especially Japan, were far higher than the United States and the United Kingdom, as the Japanese economy ran massive budget deficits and printed paper money to stimulate its economy. The Japanese embarked upon the Dodge Line[75] in retracing its steps to economic recovery, growth, and development.

[74] The Marshall Plan (officially referred to as the European Recovery Program) was a loan arrangement between the United States government and European nations established in July 1 1948 as an embodiment of economic recovery initiatives with the objective of recovering industrial production in Europe, rebuilding of infrastructure and the promotion of price stability. It represented an innovative scheme initiated by the then US Secretary of State, General George Marshall as a means of facilitating economic growth, development and recovery of the European continent through a variety of government spending. These initiatives included the resuscitation of the London money and capital markets, productivity gains, production and the modernisation of industrial, agricultural and transport systems. (See Marglin 1990 for more discussion on the Marshall Plan).

[75] Dodge Line relates to the measures taken by the Economic Stabilisation Programme as established by Dodge, the financial adviser to the Supreme Commander for the Allied Powers (SCAP), which revamped the Japanese economy into economic recovery and halted the impact of inflation through a plethora of initiatives such as currency devaluation, labour and wage controls, higher taxes, and massive restrictions on financial institutions lending.

Thus, the golden era of capitalism saw the consolidation and standardisation of the workflow as a strict American model of mass production, with consumption increasing the productivity and with the output of enterprises being determined exclusively by the industrial machinery operated by the semi-skilled labour force. That is, a period enshrined in total cooperation and commitment between the state, working class, and the capitalist entrepreneur in establishing full employment, increased wages and sustained profit rate respectively.

Maddison (2014) argue that this institutional arrangement necessitated innovation in financial markets and banking systems, evidenced by the rapid turnover of inputs in the manufacturing industry and the high standard of living in society. The golden era had features such as high growth of productivity, Gross Domestic Product, capital stock, the volume of exports and high level of investments, in defining this epoch.

Additionally, the supposition that the labour unions' clamour for high wages,[76] higher than the returns due to the capital enterprise, cannot be the only factor that triggered the profit squeeze and decline in capital accumulation in advanced capitalist economies of the world (Glyn and Sutcliffe, 1971 p.5).

Thus, the growth of household debt during the golden age of capitalism and fixed exchange rates systems was a combination of many factors including the domestic macroeconomic structure; the external international environment; the institution of the state and the relationship between capital and labour in the system of production.

Consequently, the trajectory of household debt has gone through several transformations in many jurisdictions, especially in the Anglo-American regions, where household debt has risen to historically high levels. This phenomenon, which appeared in tandem with the end of Fordist salaries and the crisis of the welfare states, has made households resort to borrowing to aid their consumption and spending levels.

This section has provided a brief overview of Britain in relation to the proximate causes and determinants of the concomitant increase in household debt and the crisis that ensued, with regard to the policies and programmes that subsequent governments employed in restoring economic growth and combating the malaise of stagflation.[77]

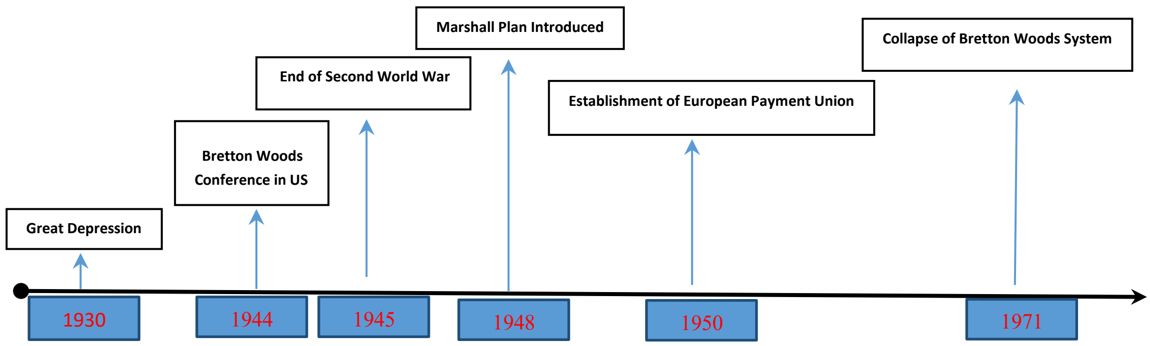
[76] The "wage-push" argument was first pioneered by Andrew Glyn and Bob Sutcliffe (1972).

[77] Stagflation refers to an economic concept that encapsulates the Instability crisis with increases in retail prices of consumer goods and unemployment resulting in stagnant wages and galloping inflation in the economy or generally the overheating of the economy.

Summarily, this section offers an initial framework of the arrangement that facilitated the growth of industry in the golden era of capitalism wherein finance was suppressed under the Keynesian regime of the Golden Age and into the state supported ideology of Fordism and Keynesianism in reinforcing the mass production and mass consumption of consumer durables.

This period, characterised by a Keynesian moment, stimulated the explosion of credit facilities accessible by households in the hope of attaining full employment and economic growth in advanced capitalist economies of the world. The level of household debt seen in this epoch can be historically annexed as a function of the dichotomy in labour-capital, stimulated by the globalisation/financialisation[78] policies embarked upon by the Anglo-American governments to combat the over-accumulation crisis of the 1970s.

Figure 7: Historical overview of macroeconomic events in the World.



Source: Authors representation (2018)

[78] Globalisation/ financialisation refers to the implosive growth of finance and the financial system relative to the real economy leading to the proliferation of financial instruments and dominance of finance at the expense of real production of goods and services.

3.1 Economic History and Monetary Policies in The UK

3.1.1 Overview of Macroeconomic Policy and Household Debt in the UK

This section evaluates the impact of the dominant economic arrangements in the post-World War II period and the factors that consistently delivered economic growth and rapid capital accumulation process in advanced capitalist economies along with the declining pace of accumulation in subsequent periods. It examines the link between the growth of household debt and the economic structure that existed in the United Kingdom during the golden era of capitalism.

Historically, the macroeconomic policy in the United Kingdom during the golden age of capitalism had a restrictive outlook because of the independence of its apex regulatory institution (Bank of England); the relationship between finance and industry; and the towering economic power of the labour unions in influencing the state.

The Bank of England was nationalised in 1946, with the traditional relationship between the City of London and the central bank unaffected, as the bank remained committed to the interests of the City of London with a caveat to prevent a return to an expansive monetary policy of the previous decades. The interests of the City of London lay emphatically in its modus operandi of maintaining the value of sterling[79] in international trade - determined by the level of trade flows, mercantilism and financial intermediation but no linkage to the manufacturing industry.

The imposition of the exchange rate system and the accompanying challenges became the very tool that led to the demise of British Imperialism in world trade as the inherent weaknesses of the economy came to the fore accompanied by an enormous debt overhang from its war expenditures. This eventually generated recurrent sterling crises[80] in Britain as the government drove an expansionary fiscal policy to achieve full employment.

Thus, the overview of the monetary policies in the United Kingdom begins from the post-depression era in the 1930s; up to the golden era of capitalism in 1950–1970; and then from the collapse of the Bretton Woods System up to the period of floating exchange rates in

[79] The golden age maintenance of the sterling- dollar exchange rate became paramount to the economic health of the City of London. This exchange rate schema was to be pegged at $2.80 - £1 and this became the "numero uno" policy of the city of London ably supported by all politicians to the right and left.

[80] The Sterling crises were different periods of instability in British economic history wherein restrictive policies were adopted between 1947 and 1967 with specific periods of sterling crisis in 1947, 1949, 1951, 1955, 1957, 1961, 1964–67.

1972 to the independence of the Bank of England in 1992, with the more recent institution of the quantitative easing policy of the Bank of England.

The UK monetary policy went through various reforms in the early 1970s, from a monetary policy to an income policy aimed at combating the prevalent inflationary trend in the economy. It also included the adoption of the Sterling M3 target, an exchange rate management that culminated into the UK's membership of the ERM from 1990-92; and lastly inflation targeting from October 1992 onwards.

Table 3. 1: Overview of some monetary reforms in the United Kingdom from (1939 – 2015)

Dates	Features	Objectives
1939–1945	Attempt to reconstruct and develop after WWII.	To achieve full employment and output.
1945-71	Fixed Exchange Regime of the Bretton Woods System.	Exchange rate stability and output generation Bretton Woods System collapse in 1971.
July 1972–June 1976	Floating Rate Regime.	From the first full month of floating exchange rates to the end of the pre-monetary targeting period.
Late 1973	Informal Targeting of M3 and formal publication of targets in 1976.	To achieve a specific target monetary aggregate per period.
July 1976–April 1979	Beginning of EM3 of the monetary target before the election.	Full employment in the economy.
May 1979–February 1987	Medium Term Financial Strategy (MTFS) adopted between (1980–1985) with revisions in 1982.	To maintain exchange rate parity.
March 1987–Sept. 1990	Informal linking of the Pound to the Deutsche Mark.	To achieve exchange rate stability.

October 1990–1992	Membership of the ERM even though it was set up in 1979.	To reduce exchange rate variability and achieve monetary stability across Europe leading to the establishment of a single currency (Euro) All currencies had to remain within two agreed price points.
October1992–April 1997	Inflation targeting regime.	This period was shortly before granting some measure of independence to the Bank of England.
May 1997–present	Central Bank Independence.	Freedom to set interest rates without government restrictions or control and only operating within a framework.
Post 2007/2008 Credit crunch	Quantitative Easing[81]/Asset Purchase.	To boost spending to reach its inflation target of 2%.
Source: Adapted from Bank of England annual MPC extracts and Report of various issues		

Thus, the post-war period saw a massive paradigm shift in the macroeconomic policy embarked upon by the various advanced capitalist economies of the world, especially within the Anglo-American specificity in combating the global crisis of that period. The continued interest in the achievement of full employment as a "one cap fits all policy" during this era was deemed to be a success, as it ensured the dominance of anti-inflationary tendencies in the quest to achieve economic growth.

[81] Quantitative Easing refers to the purchase of fixed income securities such as bonds to stimulate investments in the economy.

The inflationary trend in Britain in this period was perceived to be a function of the high wages demanded by the working class and the excessive power allotted to the labour unions in stimulating output in all sectors of the economy. More importantly, the treatment of full employment in conjunction with Keynesianism in the Anglo-American landscape became the catalyst for the departure from the gold standard in 1971 and the opening of the global markets via the liberalisation and deregulation of the financial system.

To this end, the application and commitment of the British government to Keynesianism during the era of the golden age of capitalism resulted in economic growth and some instability in global economies. It created a labour shortage as firms were committed to economic growth and full employment at the expense of the labour class with firms selectively employing skilled labour to operate the mass production industrial machines.

Table 3. 2 International Comparison of National Product and Consumption per capita

Countries	**GNP**		**GNP per capita**		**GNP/employment**	**Consumption per capita**
	1950	**1970**	**1950**	**1970**	**1970**	**1970**
US	100	100	100	100	100	100
France	13.2	18.6	45	74	72.1	68.1
W.Germany	12.0	21.2	36	74	67.2	61.5
United Kingdom	19.2	17.1	56	62	55.6	63.6
Italy	7.9	12.7	23	48	55.1	48.1

Sources:

For GNP 1950: KRAVIS*, National Products, p. 24*

For GNP 1970: E.F. DENISON, W. K. CHUNG, *How Japan's Economy Grew, p.5*

For GNP/Employment and consumption per capita: I.B. KRAVIS, *A System of International Comparison,* p.11

For GNP/per capita 1950 and 1970: Ibid.

The demand for consumer durables was also on the increase, as imports, and economic growth increased together in relative terms to each other. As the imports increased in size, imports rose in comparison and thereby reduced the balance of payments of the British economy. The stop-go policy ironed out the cyclical fluctuations of the business cycle and the slow growth rate after the war period (Rostow,1978).

Although there were instances of post-war economic instability, the British economy was injected with a high level of autonomous investment packages to stimulate the economy into full recovery and output. The development of the market and a consumer-led economy further deepened the economy into full employment as more households purchased consumer durables. The level of investment depended on the future income of consumers and their ability to earn wages for the foreseeable future (Galbraith, 1967).

In buttressing this, the unemployment level as a percentage of the total labour force during the 1920s and 1930s, up to 1940 in European markets, was at a higher level compared to the low rate during the post-war period, with the various employment policies enacted by the government to stimulate economic growth.

Government intervention in the economy was mixed as it employed institutional discretion during each business cycle to guide the economy to stability and full employment. During shortfalls in demand**,** it employed various platforms to stimulate demand, and in other times of economic surplus**,** it tried to restrain the demand for goods and services to keep the economy in balance (Matthews 1969, p.100).

Table 3. 3 Unemployment as a proportion of the Labour force, UK between 1920–1979

Countries	**1920 -1929**	**1930 -1939**	**1950 -1959**	**1950 -1959**	**1970 -1979**
Austria	6.0	13.4	3.9	1.9	1.4
Denmark	4.2	6.6	4.3	1.2	4.6
Germany	3.9	8.8	4.2	0.8	2.7
Europe	3.3	7.5	2.9	1.5	4.2
United Kingdom	7.5	11.5	1.2	1.6	3.9
United States	4.8	18.2	4.5	4.8	6.3

Sources: For Europe: A. Maddison, 'Performance in Europe' p452, p.479
For US and Japan: 1920–1960, A. Maddison, *Growth in the West*,
Appendix: For the US and Japan: J. Cornwall, *Modern Capitalism*, p. 206
OECD*, Historical Statist*ics, 1960–82

The injection of measures of inflation into wage negotiations, financial contracts, and other contractual agreements saw an increase in inflationary downward pressure on stable prices and made governments of advanced nations engage in strategy to arrest the growing pace of inflation. In a bid to maintain full employment and the economic growth objective, governments in these economies embarked on a series of programmes aimed at restraining the impact of inflationary trends by way of a Stop-Go Policy[82].

The Stop-go policy itself was more of a temporary arrangement in advanced capitalist economies and Britain; in Britain it was no different from the one experienced in the United States, causing so much instability as consumer spending fell with an accompanying fall in income distribution.

Other European nations can be analysed, such as France in 1952, which utilised dirigiste[83] policies, and experienced a similar fate with Monnet's Plan for investment in strategic sectors, visibly contending against the balance of payments constraint, leaving the government to suspend its objective of meeting domestic targets as well as international targets of full employment. Thus, Monnet was left with removing import quotas in 1955 as the balance of payments resurfaced and then had to devalue in 1957.

In conclusion, this section has provided a historical analysis into the economic history of the United Kingdom, as it relates to the twin macroeconomic policies of Keynesianism and neoliberalism in arresting the decline and the stagflation of the British economy. The end of the Fordist high wages not only impacted negatively on the economy but also instigated challenges with demand management and full employment of output.

The attempt to use the twin policies of neoliberalism and globalisation in arresting the crisis of Keynesianism and fixed exchange rates of the Bretton Woods System failed to stimulate aggregate growth or reverse the profitability decline in the Anglo - American region, but rather accelerated the impact of debt-led growth in these economies.

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[82] Stop Gap Policy refers to the process the UK government embarked on during the balance of payment crises in 1967; with the government reining in demand until the eventual devaluation in the later part of the year.

[83] A French economic system in which the state exerts a strong direct and significant influence over investment as opposed to a merely regulatory role.

3.2 The Bretton Woods System and Household Debt in The UK (1946 – 1970)

This section evaluates, from a historical and contemporary perspective, the impact of the Bretton Woods System and its system of fixed exchange rates on household debt in the United Kingdom. It analyses this in the context of an international monetary system initially designed as an adjustable peg for all major global currencies - evolving into a rigid but flexible exchange rate system. The system lasted for about 25 years from the period of its declaration of par values[84] on 18th December 1946 to its closure of the gold window on 15th August 1971. The collapse of the Bretton Woods System, because it was unsustainable in its monetary functions, and was eventually closed by President Nixon on 15th August 1971.

The period under which the Bretton Woods system came into existence, and its eventual demise, was characterised by multiple bilateral trades, competitive devaluations and currency convertibility; exacerbated by a growing multitude of unrest and turmoil in foreign exchange markets of advanced economies globally.

Thus, the Bretton Woods system was institutionalised as a de facto international monetary system to cater for four significant features of: fixed but adjustable exchange rates, current account convertibility, capital account and no restrictions on payments for current account transactions.

The period between 1946 and August 1947 saw a weak sterling currency which was further depleted by the extension of transferable account sterling status to countries with bilateral agreements. This saw the UK reserves decrease by a billion dollars when convertibility was suspended later in the year. This weakened British exports and its resolve to maintain its reserve currency status which by extension strengthened the US dollar in the international monetary system.

The Bretton Woods Conference in 1944 was set up to enable a stable international monetary system to cater for the domestic needs of each country whilst at the same time helping them to pursue their economic objectives thus preventing a re-occurrence of the destructive competitive depreciations and policies of the 1930s.

The Bretton Woods System, as a framework of the international monetary system, revolves around the cooperation of member countries in pulling resources together to facilitate the funding and eradication of temporary imbalances in the international payments system. It was achieved through the buffering of countries with trade imbalances by fixing its exchange

[84] Par value system represented a period of preservation by the Smithsonian Agreement of 18 December 1971 until its abandonment in March 1973.

rates as against the principle of the devaluation of such member country's currency (Tackie, 2014).

The Bretton Woods System attempted to resolve the difficulties of achieving domestic autonomy and international stability but the inherent contradictions of the system resulted in a conflict as the features of currency convertibility, fixed exchange rates and autonomy of national policies became a fly in the ointment of achieving these laudable objectives (Cooper, 1984 p. 37).

Thus, the British pound sterling's role as a reserve currency became less important, as the United States dollar strengthened and helped restore its surplus whilst other European nations suffered from deficits with the devaluation of sterling in 1949. The initial balance of payments disequilibria of the British economy reduced the demand for British goods in the United States because of the recessionary trends already experienced by the Americans in the month to August 1979, triggering a speculative run on the British sterling and an adverse outlook for Britain (Cairncross and Eichengreen, 2003).

On 18 September 1949, a few hours after the International Monetary Fund was informed of the devaluation of the pound by 30.5%, the fund sought ways of improving the current account deficit and the overall balance of payments of the United Kingdom. The help came via the initiation of the Marshall Plan, which began as aid to Britain and other European countries and helped to restore their account deficit to surplus with some support by the Bretton Woods System.

Thus, the dollar became the global reserve currency during the pre-convertibility period, as sterling lost its place as the reserve currency in international monetary payments and trade. As the US economy expanded, the US dollar became the primary currency in international trade and capital markets (McKinnon, 1988 p.352).

The demise of the Bretton Woods System could have been prophesied as its foundation was beset; with the - flaws of the gold exchange and the adjustable peg increasing the inflationary trends of this epoch in other advanced capitalist economies.

Fundamentally, the inflation rate of the US was slightly below that of European nations within the period of 1964 – 67 but increased as the money supply increased relative to the growth of real output. The capital mobility and money supply helped to inject inflation to other countries as the US embarked on expansionary monetary policies in a bid to ensure full employment - at the expense of price stability (Genberg and Swoboda, 1981).

Primarily, this investigates the existence of a monetary system with the inherent possibility of combining the favourable aspects of the classical gold standard[85] and the floating exchange: in terms of exchange rate stability and the pursuit of national full employment policies respectively.

This system was employed with the notion of avoiding the demerits of both fixed and floating exchange rates regimes, in terms of accepting external balance and subjecting the operations of the domestic economy to the operations of international business cycles.

From the table below, it can be identified that the establishment of a new international monetary system shortly after the expiration of World War II was significant to the stability of the global economic system. The resulting provisions were to establish an international monetary system with capabilities of a stable exchange rate system; achievement of full employment policies and cooperation amongst the nations of the world in resolving the problems and challenges of the gold exchange rate standard.

Further to this argument, Triffin (1960) stated that the currency shifts between the two advanced capitalist economies precipitated mistrust and confidence in the system whilst also increasing liquidity problems. This resulted in significant implications on the gold supply; world output and trade obligations which were required to act as reserves on national currencies between Britain and the United States.

[85] The classical gold standard regime allowed the convertibility of any amount of currency into gold at the official fixed price but the suspension of the convertibility opened up the exchange rates to freely convert from currency to gold with the ability to transact in either the currency itself or gold.

Table 3. 4 Features of the Various International Monetary Regimes				
Classical Gold Standard Period (1881–1913)	Inter-War Period (1913–1939)	Bretton Woods System Subperiods (1946–1970)		Floating Rates Regime/Globalisation (1971–89)
		Pre-Convertibility Phase (1946–58)	Convertible Phase (1959–70)	
Strict adherence to a fixed exchange rate ensuring price stability and exchange rate stability.		Jointly attributable to the pegged regime of floating rates	The regime firmly attributable to fixed dollar standard	Independence to employ domestic national policies with no adherence to a fixed exchange rate regime with intermittent periods of management.
Exposure to monetary and real shocks from other nations via the balance of payments movements[86]				Shielded away from the monetary and real shocks from foreign nations
Ensured global long-run price stability as a function of the fixed price of gold accurately nominally pegged to the world money supply.				Realisation of full employment and stable prices
Consistent commitment to global price levels caused inflation and deflation from shocks to demand and supply of gold[87]				
Source: (Bordo, 1993) **"*The Bretton Woods International Monetary System: A Historical Overview*"**				

[86] A view argued by (Rockoff, 1984 p. 625)

[87] A view recanted by (Moggridge, 1986) and (C P Kindleberger and Aliber, 2005).

Furthermore, to build nations back to pre-war levels, the advanced countries of the world, notably the United States and United Kingdom, set up the passage of the Employment Act of 1946, and The Beveridge Plan, along with planning commissions in each country respectively to cater for the needs of the domestic economies in the post-war period. These efforts were geared towards government intervention in the economy and the establishment of a welfare state in these countries to prevent a return to the economic protectionism and nationalism of the 1930s (Gilpin, 2016).

Ruggie (1982) argue about the compromise of embedded liberalism via Keynesianism as an attempt by governments of advanced capitalist economies to pursue Keynesian growth metrics domestically in their economies, with no interest in the stability of the international monetary system. This is in comparison to the gold standard and the free market ideology which subordinated domestic stability to the international monetary system.

Thus, the dynamism of household debt can be summed up as a function of the breakdown in the attempt to stimulate aggregate demand by the British government in an era of low wages and eradication of the welfare state. This is in comparison to the United States which enjoyed some form of monopoly in its wealth, as it had a hegemonic position from the loaning of its surplus funds to other nations to aid their private inflow and capital injection - through its Marshall Plan in Europe and other aids to other European countries.

Cesarano (2006) argues that the economic, social and geopolitical circumstances at the end of World War II fostered the development of the Marshall Plan and the European Payments Union.[88] It became the platform upon which the United States employed debt to restore its economic deficits as the European economies suffered from social unrest with the rise of the anti-liberal labour parties across the Europe continent.

Specifically, Britain struggled domestically in achieving full employment and the deflationary pressures of this time meant that its store of debt and balance of payment deficits were anathema to the objectives of the Bretton Woods System and domestic economic growth.

In response, the resolution was to open up its economy to global demand and, more importantly, the acceptance of Anglo-American loan arrangements on the proviso of reducing debt and achieving full current account convertibility, which then precipitated the run on

[88] The European Payments Union was conceived in 1950 as an institution with the objective of netting off the deficit and surpluses incurred from trade relationships by its members in Europe via the Bank of International Settlements. The EPU employed both the US Dollar and gold for settling its accounts and had Britain as its largest deficit country.

indebtedness in Britain. The attempt by Britain to ease off currency controls in 1947 precipitated a run on its reserves of foreign currency and prompted the Sterling crisis of this period in 1947.

In conclusion, this section has outlined the economic and political overview of the fixed exchange system of Bretton Woods and its implication for the growth of household debt in the United Kingdom. It demonstrates the broad historical platforms on which the real economy suppressed finance, whilst investigating the period of US hegemonic dominance in world trade and the economic arrangements that delivered high output leading to the primacy of the US dollar. This phenomenon strengthened the United States' ability to monitor international trade as well as their hold of unilateral control over the issuance of the dollar and the associated global demand.

3.3 Historical Approach to Keynesianism and Fordism in The UK

It is imperative to understand the previous section outlined the various economic policies proposed by various advanced capitalist economies when highlighting an international monetary system that can cater for world trade and advance economic growth and development in the post-war period.

The submissions of the Bretton Woods System and the end of the fixed exchange system helped to increase these economies to full employment, as it was a panacea to the social pressures of this epoch, achieved through a Keynesian led-boom and fuelled by the explosion and implosion of credit facilities extended to households.

Household debt in Britain is a functional representation of twin social issues: the end of high Fordist wages and the crisis of the Keynesian welfare state[89]. In addition to the mass consumerism of this period, mass production and standardised work routines resulted in the intensification of labour and productivity.

Consequently, the intensification of the exploitation of the labour class organised by bureaucratic unions negotiating the wage bill, not only increased output within this epoch but also resulted in higher wages being extended to the workers and overall economic growth in advanced capitalist economies. Thus, Keynesian policies were pivotal in the achievement of economic growth as the state engaged, not just with the capitalists but also the workers, in contributing to the high economic growth and development of these economies.

Fordism, in the context of household indebtedness in the United Kingdom, revolves around an economic system of expansion and technological progress achieved by post war advanced capitalist economies in satisfying the mass consumption of products and mass production of consumer goods. This was effective in recording a high growth rate in the seventies, whereby workers producing these durable consumer products were also encouraged to expend their high wages on the manufactured goods.

In contrast, there was a supply of wage-led growth evidenced by the high rate at which the world industrial production grew from an annual average of 3% to reach a new high of 5.6%. Britain, on the back of the British Industrial Revolution of the eighteen century and the

[89] The Keynesian welfare state is hinged on the achievement of economic growth and full employment of output through effective coordination of the working class, capitalists and the state in rendering high wages to the workers; high profits to the entrepreneurs and upholding social interests in society. This was achieved through collective bargaining between workers and entrepreneurs with high wages; education and upskilling; health and care of the worker resulting in increased productivity and capacity of the entrepreneurs and ultimately the profit accruing to the capitalists.

two world wars, also successfully grew at a high pace although not as much as in other advanced capitalist economies like the US, Japan or Germany.

More importantly, the United Kingdom lagged behind the United States and Canada regarding consumption expenditure on consumer products but was similar to Belgium in its growth output during this epoch. This was partly due to the workings of the war and due to labour scarcity and rising labour productivity, which all afforded the labour class high Fordist wages paid to them during this period.

Table 3. 5 Average Annual Rate of Growth (%) of Total Output in Western Europe, US, Canada, and Japan, 1870–1979

Countries	1870–1913	1913–1950	1950–1959	1960–1969	1970–1979
Japan	2.4 (1.3)	1.8	9.5	10.5	4.9
UK	2.2 (1.3)	1.7 (1.3)	2.7 (2.2)	2.8	1.8
Belgium	2.7 (1.7)	1.0 (0.7)	2.9 (2.3)	4.9	3.3
United States	4.3(2.2)	2.9 (1.7)	3.2 (1.6)	4.3	3.0
Canada	3.8 (2.0)	2.8 (1.3)	3.0 (1.2)	5.6	4.2

Source: OECD Historical Statistics, 1960-82, A Maddison, 'Growth in the West' p.28-30; Growth in Japan and the USSR, p.30, p.35-36; A. Maddison 'Performance in Europe' p.502ff.

Historically, the growth of household debt lies in the mass consumerism post-1971 wherein a general stagnation in income levels of the working class and the growth of consumer products led to the use of credit platforms in augmenting their wages. The synchronising of mass consumerism and mass production during post-war periodisation is a consequence of the level of household indebtedness seen in this epoch with the stagnation of wage income of the working class and the end of the provision of the welfare state.

Ultimately, as finance plays a more centralised role in post-1971, the wage/labour growth gives way to a more advanced form of consumption expenditure, which encapsulates not just the high wage Fordism era but also extends to our current time, via the existence of cost-cutting measures within all government expenditure.

Thus, to contextualise the rise of household debt in the post 1970 era, the incidence and growth of finance as typified by the financialisation of the economy rests on the financial form of growth in post-war capitalist economies such as the United Kingdom. The continued competition between financial institutions to provide credit platforms to the working-class population has led to a labour-capital struggle in enhancing the productivity of the worker to that of the Fordism years and restoring economic growth.

The growth of household debt in the United Kingdom is a function of the end of the Fordist high wages, and the unresolved over-accumulation crisis of the 1970s, which has led to the tendency of the rate of profit to decline in advanced capitalist economies such as the United Kingdom as well as encountering competition from other climes such as Germany and South East Asia.

In response to the problems of stagflation and low levels of capital investment in the United Kingdom, monetarism and neoliberalism policies were identified as the vital panacea to these problems in advanced capitalist economies such as the United Kingdom. The governments of Margaret Thatcher and Ronald Reagan embarked upon the twin policies of neoliberalism and monetarism to combat the stagflation crisis in the economy.

The 1970s brought about the concept of establishing economic policies aimed at reducing labour gains to the barest minimum by employing restrictive labour market laws, flexible labour markets, irreducible and inefficient labour unions - leading to high unemployment and lack of capital investments in the Anglo-American domain (Prasad and Thomas 1998 p.121-124).

The 1940s, and up to three successive decades afterwards, saw the proliferation of various credit policies targeting interest rates with the imposition of controls over the growth of credit and its accessibility to all and sundry. This epoch was characterised by the low rate of inflation and unemployment levels which initiated the high level of economic growth, in comparison to the period of economic instability and uncertainty that led to the stagflation crisis that engulfed the 1980s.

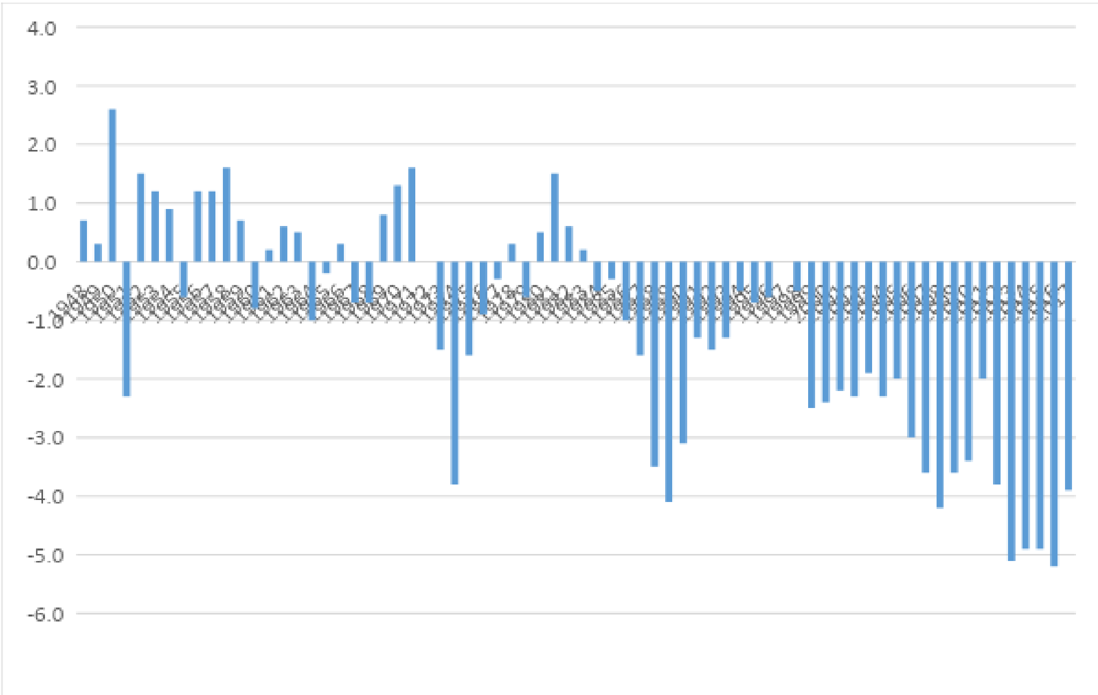
The proliferation of these credit policies in a period of declining taxes prompted the UK authorities to attempt to establish policies aimed at controlling credit with strict restrictions on banks' liquidity ratios, lending limits, repayment period of loans and them keeping the cost of capital at the minimum.

These strict restrictions and regulations provided the impetus for the integration of financial liberalisation in the late 70s, as Margaret Thatcher came to power, under the notion of deregulating the banking sector and removing all exchange controls in order for the domestic institutions to gain access to the Eurodollar markets, as well as opening up the economy to foreign competition.

The British banking sector be integrated into the global debt and capital markets with the removal of exchange controls which helped to abolish the regulations on special deposits ("the corset") required by the Apex bank on bank lending, ultimately facilitating the smooth integration of banking institutions into the mortgage industry in Britain.

In the subsequent decade, the increased competition in the housing market ensured easy access to the international financial markets with the dissolution of the interest rate fixing mechanisms in 1983. The dissolution unilaterally helped to relax the restrictions placed on building societies and eventually, the Building Societies Act (1986) formalised the relaxation and saw a proliferation of wholesale mortgage lenders in the United Kingdom housing markets. To this end, the United Kingdom and other capitalist economies in Europe experienced some measure of drought, be it price controls, rationing, high inflationary pressures, budgets deficits and severe balance of payments positions, all of which affected the living standards of the people.

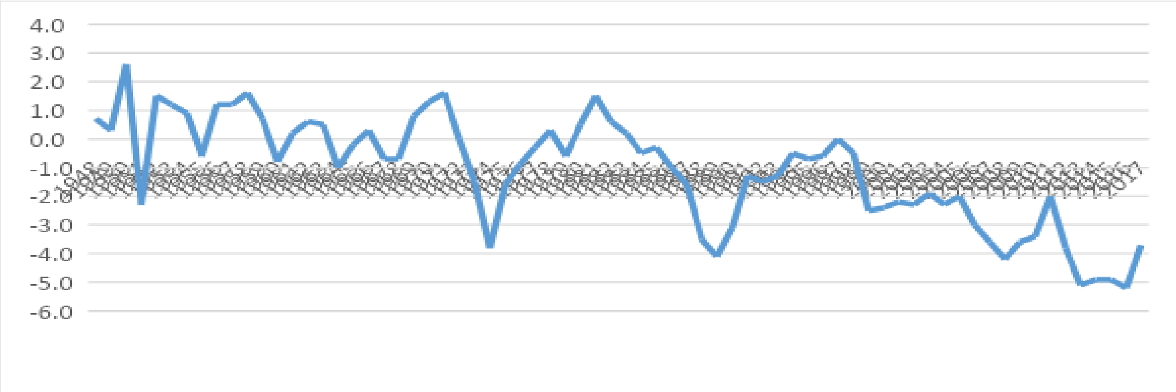
Figure 8: Balance of Payments in the United Kingdom (1948–2016)



Source: Office of National Statistics

From the figure below, we can conclude that current account balance as a percentage of the gross domestic product in the United Kingdom has undergone some changes from 2 per cent during the period of Golden Age to -4% shortly around the global financial crisis in 2007.

Figure 9: Current account balance as % of GDP in the UK (1948-2016)



Source: Office of National Statistics
https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/timeseries/aa6h/ukea

The interwar period was indeed a period of significant disruption and imbalance both for trade relationships and capital movements, with repercussions for all economies involved in the war - particularly Germany, the United States and the United Kingdom - leading to the problems and challenges in 1971 and most importantly the ongoing issues that culminated in the 2007 global economic crisis.

Amongst other issues, the period of deflation, exchange rate crisis and general strikes resulted in the GDP per capita falling to about 80% of the pre-war levels and unemployment rising from about a million in the 1920s to about 3 million in 2003, with households resorting to borrowing to supplement their consumption expenditures.

Table 3. 6 Graph of Output and Unemployment in advanced Capitalist Economies (1973–2003)

Countries	Growth of GDP	GDP per Capita	Unemployment Rate
Eurozone	2.3	2.0	7.9
United States	3.0	1.6	6.4
Britain	2.3	2.0	7.3
Japan	3.0	2.5	2.9

Source: OECD Data Bank, European Commission, European Economy and Oxford Economic Forecasting for 2002-3 estimates and forecasts, GDP figures are trend growth rates, and the rate of unemployment is as a percentage of the labour force.

Identifiably, the trajectory of household debt in the United Kingdom during the Keynesian/Fordist years was different in that the consumable-purchases during this epoch were more from wage-led aggregate spending than from debt-financed consumption as seen in subsequent periods. The consumption during the Keynesian epoch was directly linked to the growth of wages and salaries of working-class families and not determined by the creditworthiness of households.

In comparison, the era of the golden age of capitalism from 1945–1970 was more of a concomitant growth in economic variables in Britain; as there was a remarkable growth of wages and salaries and households enjoyed a better standard of living compared to the interwar period of the 1920s and late 1930s. In the same terms, the 2007 global financial credit crisis, in an era of stagnant wages, austerity and capitalist competition, aimed to maintain profit levels via household credit supply.

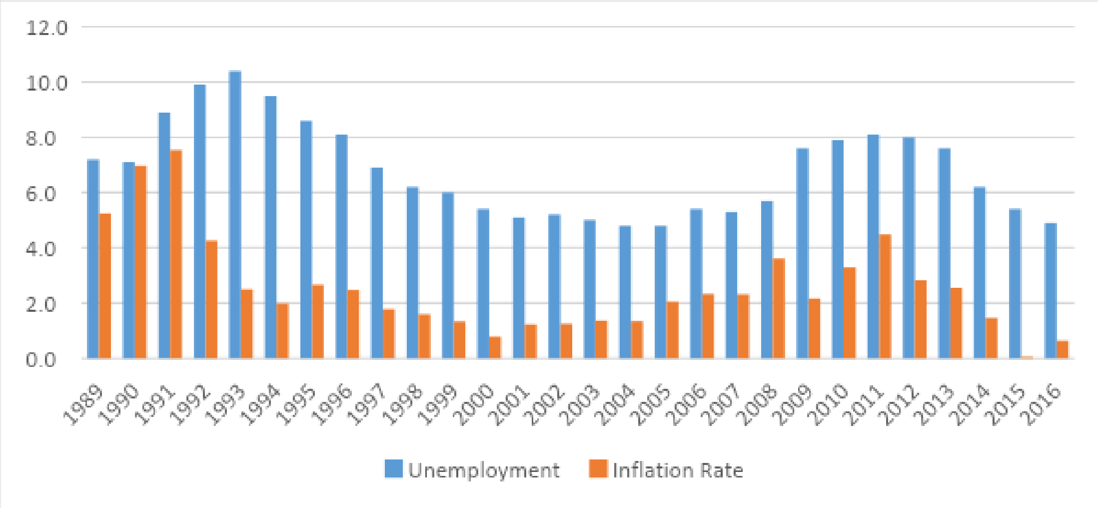
Thus, the vagaries of domestic prices during the various periods from the 1920s to the 1970s, and through to the 2000s, all reflect the downward trend of most working-class families being unable to meet their consumption levels due to the persistent growth in inflation and the erosion of savings and investments resulting from the credit crisis in 2007.

Moreover, the importance of the debt levels between the beginning and the end of the twentieth century was dictated by the need of the state to finance war and by the consequences of embarking on such projects. This project inadvertently led to the amassing of high debt levels, mass unemployment and the high cost of social expenditure in order to sustain the British state. This is reflected in the composition of the present capitalist status of Britain such that the continued indebtedness by households is a function of the post-1945 events.

Thus, the economic state of stagnation, mass unemployment, and high inflation in the United Kingdom at this time was more of an aberration, as the government attempted to combat the twin malaise of economic stagnation and persistently high inflation. Pitting this against the status quo at the dawn of the new millennia, the average growth rate up to the year 2000 is far lower than the 1949–73 periodisation, as it was at a level of 2.75 per cent growth rate.

In the same context, the prevailing rate of inflation and unemployment between 1990 until around 2015 was an average of 4% and 3% in the United Kingdom and was higher than other European countries during the same time period.

Figure 10: Inflation and Unemployment Rates in the UK (1989-2016)



Source: Inflation, consumer prices (annual %) from the World Bank International Monetary Fund, International Financial Statistics and data files and [LF24: Employment rate (aged 16 to 64, seasonally adjusted)] Office of National Statistics (accessed on 3/10/2018).

The stagflation crisis of the 1970s brought about the industrial disputes, mass unemployment and the wage crisis of national and state-owned enterprises, with both the purported notion of social mobility and the end of laissez-faire economics. This increased the transfer of payments to the unemployed reminiscent of the 1920s, where the benefits system became the platform upon which welfare payments were handed out and welfare claims were given to the unemployed.

In conclusion, this section critically exposes the arguments that the growth of household debt in the United Kingdom was owing to the end of the Fordist high wages that sustained the mass production and consumption of consumer durables, ultimately causing the struggle by capitalist competition to maintain the tendency of the rate of profit to decline in the economy.

This chapter evaluates the changes in the economy that restricted the growth of wages in a comparable level with expenses, which then suppressed the ability of households to purchase assets and properties without resorting to credit facilities. Essentially, the chapter argues that the explosive and growth of the financial system, especially in the context of supplying household debt, is stifling for these households.

3.4 The Post-Fordist Era

Household debt relative to income has increased in the last few decades with significant implications for household consumption, output and the economy. Consumer spending still accounts for a large percentage of the UK gross domestic product and has been a reliable driver of economic growth since the end of the Second World War. Household debt, on the other hand, relates to the composition of debt structures associated with spending on the purchases of specific products in the goods market.

More importantly, the growth of household debt between the mid-90s and late 2008, leading to the credit crisis, reveals a significant expansion and massive growth of household debt in Europe. This reaches about 150 per cent, compared to a growth in the United States of only 60 per cent during the same period. This growth in the credit market hinges on the easy access to short-term loans and credit platforms, owing to the innovation in banking systems and the technological advancement in the provision of banking products and systems to the most vulnerable in society, in the advanced capitalist economies of Europe and the States (Costa and Farinha, 2012).

Thus, the easy access to household debt was facilitated by factors such as low-interest rates, diverse financial products, securitisation, the growth of the financial system and sector in the supply and demand for credit facilities. In Britain, the stock of credit facilities increased multiple times with the advent of credit cards, delayed payments, direct debits and other notional concepts, all of which altered or lifted the liquidity constraints in consumption limits for consumers in exchange for the long-term instalment payment system.

Thus, household debt during the post-Fordist era was significantly different from the Fordist era because of the decline in productivity which was triggered by the end of the high Fordist wages and the unresolved overaccumulation crisis of the Fordist era.

That is, the Fordist era was a period in which households' only recourse to the use of credit facilities was in the purchasing of properties - compared to the era of financialisation wherein credit is being used for day-to-day consumption expense. The dynamism between these periods is also significant due to the increased competition between financial players in attaining shareholder value for their respective institutions along with the need to maintain previous profit levels.

Two compelling paradigms have been employed in explaining the persistent growth of household debt in advanced capitalist world economies, such as the United Kingdom. The first paradigm argues that the increased indebtedness experienced in these countries is a function of the dynamism in business cycles which associates credit expansion with productivity, increased output generation and economic growth or full employment. That is, credit booms are typically the result of productivity improvements in the working class, which increases the demand for credit facilities and is independent of any exogenous stimuli.[90]

Conversely, the second paradigm explains the increase in indebtedness as a measure of factors; with financial innovation and technological advancement significant components of the shifts seen in the supply for credit markets - a view further argued by Kindleberger and Aliber (1978) in their thesis that "in many cases, the expansion of credit resulted from the development of substitutes for what previously had been the traditional monies."[91]

To this end, it becomes imperative to differentiate and evaluate the determination of the growth of household debt, from the supply-side explanation and the demand-side explanation, as a percentage of Gross Domestic Production the United Kingdom. Household debt from the supply side looks at debt from the financial sector provision of credit platforms via technological advances and innovation with the ability for leverage on the asset prices (Allen and Gale, 2000 p.12).

In other words, the supply of credit facilities to households, in line with the continued increase in demand for debt facilities by these households, to satisfy their consumption expenditure via credit cards and easy access to credit facilities.

Cynamon and Fazzari (2008) argue that the increase in the availability of debt between the 70s and the 90s not only facilitated the adaptation of households in taking on more debt but also encouraged these households to continue to spend from future unrealised income.

As consumption increases relative to income growth, consumers tend to respond to this income shock via the demand for credit facilities to augment their consumption expenditures through debt facilities. Thus, the financial players in advanced capitalist economies provide the wherewithal and the enabling environment which facilitates the growth of these credit facilities by providing debt structures through financial innovations, technological advances and mortgage options.

The debt to income ratio between aggregate debt and income in the United Kingdom has increased significantly in the last half-century, as the growth of debt obligations have outstripped household income and wages - thus restricting the avenues through which these

[90] Alan Greenspan's explanation of the shocks to the US economic system during his testimony to the US congress on June 9, 2005.

[91] See (Blot *et al.*, 2013 p.122) for a detailed description of this argument.

households can sustain their lifestyles other than resorting - to credit terms from banking institutions.

On the other hand, the demand for household debt in satisfying consumption expenditures and other purchases by households can be inferred to be a direct function of increased access to debt facilities offered by banking institutions and other allied institutions. This was as a result of the collapse of the Bretton Woods system and the deregulation of the banking sector, giving the households sector the ability to accumulate debt, with no recourse as to the adverse effect it might have on themselves or the economy.

The supply of credit facilities became even more pronounced after the liberalisation and deregulation of the financial sector in advanced capitalist economies, as these financial institutions continued to generate high growth and profit margins. Thus, banking institutions, in a bid to survive the competition and the deficiencies in profit rates, ingrained household spending into the financial sector, gradually encouraging households to take on debt to satisfy their day-to-day expenditures.

Before the 1970s, consumption of goods and services accounted for over 80 per cent of total output of, national income and economic growth, rising to about 90% after the collapse of the Bretton Woods System in 1971 and, more recently, with the global credit crunch in 2007. This increase in the propensity to consume relative to income has been a function of increasing demand by households in the era of wage retrenchment and stagnant wages; these households have eventually turned to credit from banking institutions to meet the demands of their household spending.

Specifically, the increase in consumption relative to income is the rate at which household debt and debt-financed consumption has taken a pivotal role in most households in the United Kingdom, with little or nothing left to save. Thus, accumulated debts held by these households are used to pay off new debts thus spiralling into an unending cycle of debt-financed consumption.

3.5 The Banking System during The Golden Age

This section looks at the structure and composition of the banking sector in the United Kingdom and other advanced capitalist countries during the golden age of capitalism. It specifically looks at the types of banking institutions, their growth rate, features and objectives during this era primarily in the United Kingdom and then in comparison to other banking institutions in the United States, Europe and Asia.

The banking sector in Britain during the golden age era enjoyed stability and relative strength in comparison to the banking system that had existed during the War, with its growing international economic and political upheavals, struggle with balance of payment disequilibrium and, debt crisis in the domestic economy - coupled with issues of international borrowers defaulting on their obligations, consequences of leaving the gold standard system and the currency crisis.

Thus, the golden era of capitalism between 1945 and 1971 was characterised by high growth, tremendous expansion in bank branches, bank concentration with a transformation from regional banking to branch banking and more centralised banking. This banking structure perpetuated the macroeconomic arrangement that effectively saw a period of unprecedented economic growth, stability and expansion in world trade, with labour productivity doubling in a way like the rate of growth of capital stock (Maddison, 1964, 1982).

Historically, the financial system in the United Kingdom had developed well in the eighteenth century with the Acts of 1826, 1833 and 1844 respectively providing the statutory framework for the imposition of stamp duties on bills of exchange, permission by joint stock banks to operate within the London area and lastly, the ceiling on all bank fiduciary note issues. These served as the anchor of which the intermediation process of the banking sector in the UK rests upon in accelerating its growth potential (Sheppard, 2013).

To this end, the apex bank in England officially known as The Bank of England[92] was initially established by merchants and financiers as a type of chartered privately held bank organised to accept deposits and make loans to the private sector. The bank had a close affinity

[92] The Bank of England, since its formation in 1694, has set a pivotal central role of undertaking central banking activities entirely different from other British banks from the management of the national economy to influencing and regulating the activities of the banking sector.

to the public sector with a large holding of government paper and activities in London and throughout the British Empire (Turton and Orbell (2001) and Orbell (2017).

Merchant banking[93] in the golden era developed as an offshoot of major developmental work around private banking and institutional banking in the capital market. Thus, the issuance of securities, sinking funds and pension schemes took centre stage, with the London stock exchange at the helm of affairs via share buybacks, mergers and acquisition and other forms of debt securitisation.

The diversification and growth experienced by these banks was determined by their linkages and by the opportunities the Euro-Dollar market had in the late sixties, shortly before the dawn of globalisation and the liberalisation system of this era when British banks were exposed to the global systems. The integration of these banking institutions into the global financial system became the topical issue in the post-war period as banks were subjected to increased profitability.

The post-world war period saw restrictions placed on commercial banks in extending credit facilities because of the debt overhang resulting from the war the governments had engaged in during the previous decade.

The demand for credit was prevalent with pent-up consumption during the war period lifted to reveal high demand for consumption expenditures and with the establishment of full employment, high income and high growth. Both the state and the banks were poised for funding the housing boom and the consumption function of households, as these households increased their demand for credit.

Thus, at the far end of the 1950s, the Radcliffe Committee was tasked with reviewing the operations of the United Kingdom monetary system to establishing price stability, maintain exchange rate stability, full employment and economic growth in an era wherein demand for credit was pervasive.

The committee collected information from an array of 100 banking institutions which included insurance and pension funds firms; building societies which in 1960 held £2.6billion of mortgage assets; wholesale financial institutions; foreign banks and 16 London and Scottish clearing banks which held about £8.3billion banking assets and more than 30% of UK GDP (Turton and Orbell, 2001; Orbell 2017).

[93] London's merchant banks were established as partnerships by overseas merchants who wanted a presence in London and became a hegemon in financial matters globally, merging into successful financial power houses in the 1980s as they were reduced to fifteen merchant houses.

The building society expansion during 1980 and again in the 1990s witnessed a contraction, as many of these building societies went through the demutualisation process and became banks, over the last half-century declining in numbers from 700 in 1960 to about 52 in 2010. The demutualisation process not only transformed the London Stock Exchange into a globalised financial centre but also intensified the demand for credit and loan facilities by companies in the UK (Orbell, 2017).

The Bank of England introduced the Competition and Credit Control[94] with the sole objective of promoting competition, both within the banking industry and amongst banking institutions and the non-financial sector.

The primary providers of retail banking in the United Kingdom were the clearing banks with increasing competition within the non-traditional banking intermediaries[95] during this epoch until the 1971 reforms - which effectively broke all banking controls and ushered in banking liberalisation and by extension financialisation into the British economy. It effectively spurred the increase in credit growth and contributed to the decline in liquidity holdings of banks in the United Kingdom.

Principally, the growth and evolution of the banking sector in the United Kingdom became a function of consolidation, competition and stability even amid the secondary banking crisis of 1973-75 - amidst low-interest rates and the demand for credit by individuals, firms, and the economy at large.

The competition between banking institutions effectively changed the UK banking structure, as the banks became more competitive with services becoming cheaper to savers and borrowers, but a subtle credit bubble was building in response to the provision of credit platforms to all and sundry.

The competition and credit control regime sufficiently replaced the imposition of controls on borrowing as the liberalisation and deregulation of the Thatcher era helped to increase the competition between banking institutions and efficiently pushed down the cost of credit in the form of low-interest rates, resulting in high economic growth.

Thus, the passage of the 1979 Banking Act and the Competition and Credit Control became the impetus on which the banking system was freed from exchange controls, and the

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[94] (Banking of England, 1971) established the Competition Credit Control in September 1971.

[95] See Reid (1978). Fringe banks — or non-traditional banks referred to small banks involved in lending at a very micro level who were not subjected to the dictates of the competition and credit control policies in the seventies, but their expansion led to the Secondary Banking Crisis of 1973-75.

international monetary system became entwined with domestic banking liberalisation resulting in accelerated capital flows and presence in global markets.

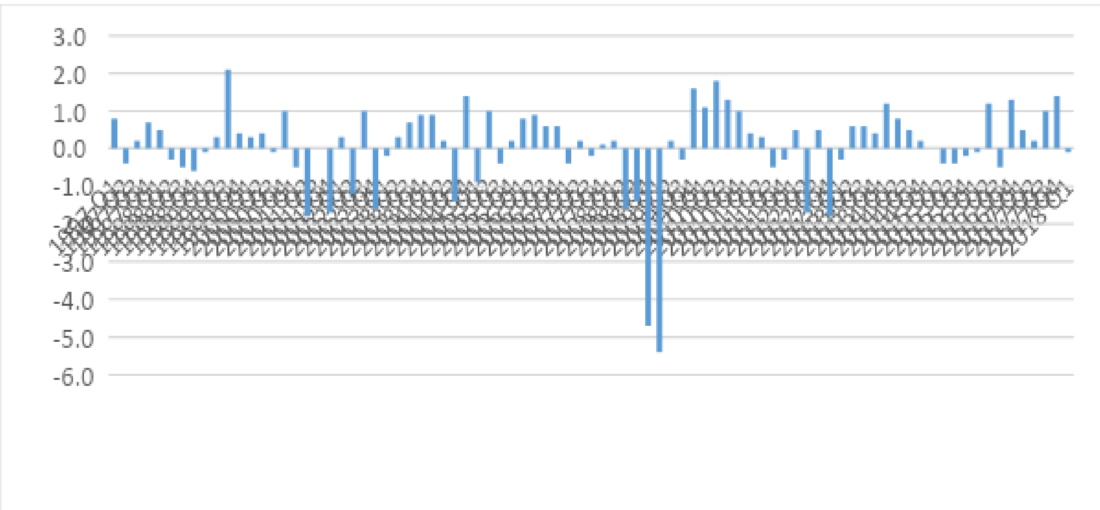
The liberalisation and subsequent abolition of exchange rate controls made financial flows more readily available in the advanced capitalist economies, whilst the banking sector became more risk-averse and deepened its profitability by extending credit platforms to individuals and firms in the United Kingdom.

This policy effectively ensured that financialisation was fully activated in the economy, with the transformation of the economy to serving the interests of the financial markets rather than the real economy. Banking institutions and relationships were then unravelled to reveal its rent-seeking and profit-seeking features Piketty (2014); in terms of expropriating profits from not just enterprises but more importantly from households via mortgages and other debt in the United Kingdom (Seabrooke, 2006; Engelen et al., 2011).

The growth of finance and the expansion of the financial sector between 1979 and 1989 was significant. Investment in the financial services grew at an astronomical rate of about 320.3% compared to investments in the manufacturing sector which grew at a palpable rate of just about 13% (Coates, 2012; p.89).

Furthermore, extending this to the period between the late 1990s and 2016, manufacturing was still treading slowly against the financial services sector. The first quarter growth in Q11997 recorded a dismal -0.4 per cent and went downhill to -5.4 per cent in 2009 at the height of the global financial crisis, hovering at -0.1 per cent by Q12016.

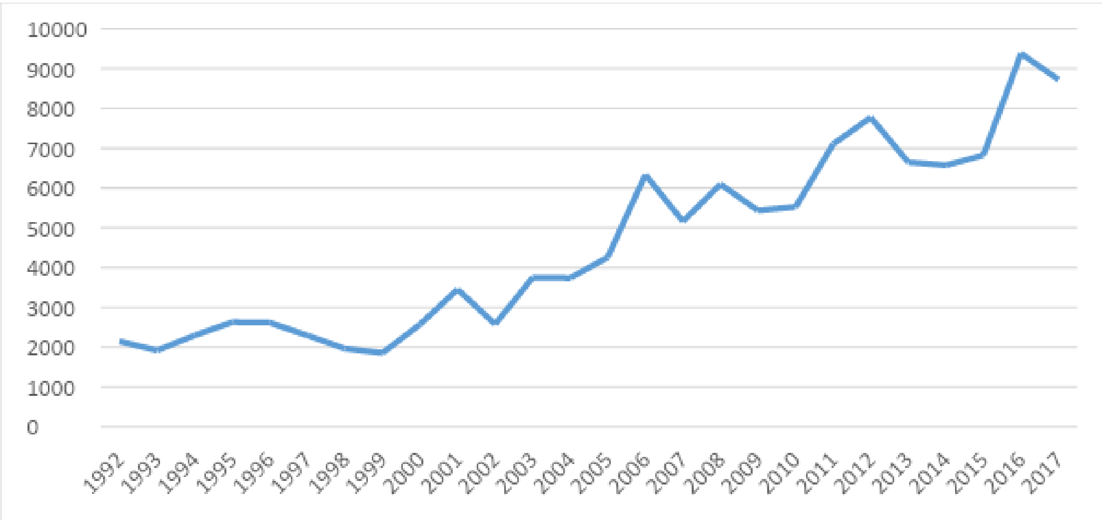
Figure 11: Manufacturing Sector in the United Kingdom (1997–2016)



Source: Office of National Statistics, C MANUFACTURING: CVMSA, (accessed 03/10/2018)

The growth of finance also had significant implications for the banking system (both domestic and foreign) under the financialisation era as these banks became the dominant force in serving the needs of their clients, including the households who were now ingrained into the financial sector. The foreign banks served the investment needs of their clientele while the retail banks served both households and corporate clients. Between 1990 and 2016, the growth of finance was so huge in that bank and building society deposits soared from about 2.1bn in 1992 to about 9bn in 2016 (The Bank of England, 2017).

Figure 12: Bank and Building Society CG Deposits and Short-Term Assets (1992–2017)



Source: Office of National Statistics https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/timeseries/bksm/pusf (accessed 20th September 2017)

3.5.1 Structure and Functions of Banking Institutions in Japan

During the golden era of capitalism, the banking sector in Japan[96] was awash with trade credit, significantly due to the dependency of the corporate sector on the banking system and from what was known to be city banks and long-term bank credits, with a preference for a customer banking relationship. The importance of trade credit in world trade post-World War II, especially in Japan relies exclusively on the banking customer relationships and the industrial structure of both financial and non-financial institutions in their quest to obtain funding.

Table 3. 7 Share of Trade Credit in Financial Assets

	1950	1965	1973	1978
Great Britain	5.7	6.5	6.0	6.6
Japan	12.8	17.2	18.4	13.7
United States	4.4	3.9	5.0	4.4
Italy	11.2	5.9	4.8	5.7
Belgium	13.5	6.4	5.7	5.4
West Germany	18.1	7.7	6.3	5.7

Source: Adapted from Goldsmith (1985, Table 58)

US and UK figures include other financial assets computed to include total trade credit

Thus, the composition of Japanese banks included not just city banks, but also regional banks, other deposit financial institutions, private financial institutions and the Bank of Japan, all contributing to the total financial needs of the local Japanese market. The city banks were content with providing inter-bank funding and direct borrowing in augmenting their capital and source of funding during the golden era.

[96] Views represented herein are adapted from (Gerschenkron, 1962).

In the main, the central apex bank used the city bank to fund the growth of credit as opposed to the situation that prevailed in the United States. The BOJ established schemes to protect the city banks as well as using various monetary tools such as the bank rate and the discount rate which supported the city banks' credit funding in Japan compared to the one used by the Federal Reserve in the US.

Table 3. 8 Policy Directions during the Golden Era of Capitalism

Policy Instruments	**Policy Features**	**Policy Outcomes**
Central Bank Independence & Inflation Targeting	Control Inflation and Manage money demand	Low inflation and High-interest rates
Inter Bank Loan Rate	Primary Target	Direct credit to banks
Discount Rate	Primary Target	Purchase and sale in the discount window and interbank market fostered quick credit turnaround
Portfolio Decisions of Banks	Intermediate target	
Corporate Investment Expenditure	Intermediate target	Increase in Economic growth
Money Supply & Credit control	Final	Price and Exchange rate stability, Real GNP growth rate
Reserve Requirement	Established in 1959 Differentiated by type of deposits Smaller than the US	Use to change the supply of reserves, influence interest rates Determines credit availability and money supply
Bank of Japan interest rates	Influenced by the Bank of Japan directly and indirectly	Regulates the supply and demand for interbank funds

Adapted from William Tsutsui "Banking in Japan: banking in the high growth era 1952-73"

Table 3. 9 Structure, Composition and features of Banking System in Select Countries

Banking System	State or Privately Owned	Features	Types of Banks Investment Banks / Commercial Banks
UK	Publicly owned and Private banking	▪ The existence of a modern financial system before the first industrial revolution and rise of the 18th century. ▪ Securities market-oriented. ▪ Less relationship between industry and banking institutions. ▪ Composed of Building Societies and Clearing Banks.	Specialised Banking
Italy	Publicly owned		Universal Banking
US	Publicly owned and involved in private banking.	▪ Capital market based ▪ The existence of a modern financial system before the industrial and transportation revolution and the rise of the 18th century.	Specialised Banking
Germany	Publicly owned	▪ The bank-based financial system closely linked to industry. ▪ The reduction of information costs and	Universal Banking

		easy identification of good investments. ▪ Easy mobilisation of funds for corporate clients. ▪ Availability of credit facilities and other funding to entrepreneurs. ▪ German bankers have initially been entrepreneurs acting as merchants in production and manufacturing.[97]	
Japan	Publicly owned	• Bank-based financial system • Japanese bankers were intimately linked to Industry which helped in mitigating information asymmetries [98]	Universal Banking

[97] German bankers frequently "mapped out a firm's paths of growth, conceived farsighted plans, decided on major technological innovations, and arranged for mergers and capital increases." (Gerschenkron, 1962)

[98] See (Hoshi, et al 1990 p.69).

3.6 Conclusion

The purpose of this chapter was to provide a historical exposition into the factors underlying the Fordist/Keynesian period of the Golden Age of Capitalism: with its high growth and rapid capital accumulation in advanced capitalist economies from 1945 until its demise in 1971 - after the collapse of the Bretton Woods System which suppressed finance during this epoch. It analyses the macroeconomic arrangement during the Second World War which delivered consistent high growth, productivity and high wages, guaranteeing consistent profit rates to industry and capital accumulation in these economies.

The chapter began with section 3.0 providing a historical outline of household debt in the United Kingdom under the Fordist/Keynesian regime of high wages, mass consumption and mass production, under Taylorism. Section 3.1 provides a discourse on the various monetary policies and financial arrangements embarked upon by most advanced capitalist economies which then encouraged the growth of household debt in the United Kingdom.

Section 3.2 provides a topical discussion of the economic-cum-political arrangement and overview of the Bretton Woods System and its objectives in instituting the hegemony of finance over the real sector.

Section 3.3 and Section 3.4 looks at the historical role of Keynesianism and Fordism in relation to household debt from a timely and historical perspective. Section 3.5 builds on the macroeconomic performance and banking system in the United Kingdom and the type of structure and composition with a comparison to other banking systems across the globe. Section 3.6 discusses the conclusion and provides a summary of the contents of this chapter.

Conclusively, this study argues that the leading causes of household debt in the United Kingdom are the continued extension of banking corporations to expropriate profits from vulnerable households and the stagnant wages of the labour class in the economy.

Thus, the increasing competition by financial intermediaries in the financial sector coupled with the poor performance of the real sector has shifted the weight of the burden to households through the multiplicity of credit platforms and facilities presented to these households.

The next section highlights the impact of this financial arrangement in influencing households in the United Kingdom to rely on debt in augmenting their consumption expenditures. It will provide the schemata of financialisation and the impact it has on consumption, economic growth, and full employment.

CHAPTER FOUR: FINANCIALISATION OF HOUSEHOLDS IN THE UK UNDER THE POST-FORDIST/NEO-LIBERAL ERA

4.0 Introduction

This chapter presents an overview of the dynamism of household debts in the United Kingdom from the post-Fordist[99]/neoliberal period of globalisation/financialisation[100] and its inherent contradictions whilst triggering the greatest financial crisis post Great Depression era. This era saw the collapse of multinational corporations such as Northern Rock in the United Kingdom and Lehman Brothers in the United States.

The chapter subsequently discusses the various economic-cum-political arrangements that ushered in neo-liberal financialisation which was aided by institutions of the states' supply-side public policy, following the collapse of the Bretton Woods system and the fixed exchange rate system.

It examines household debt from a historical and contemporary perspective by comparison with both the fixed and flexible exchange rates systems and the implication for households in the United Kingdom. Finally, the section examines in detail the dynamism of household debt and the effect of financialisation on various households in the United Kingdom and other post-Bretton Woods economies.

This chapter is structured as follows: section 4.1 evaluates the growth of household debt in the post-Fordist epoch of globalisation/financialisation and the economic-cum-political arrangement that has favoured the use of household debt resulting in its upward trajectory in the United Kingdom.

Section 4.2 discusses the role of neoliberal financialisation from a contemporary perspective: as a state policy, public policy and supply-side policy, on the dynamism of household debt in the United Kingdom and other advanced capitalist economies of the

[99] Post Fordist sits within three theoretical ideologies of the Regulation approach: the flexible specialisation approach and the neo-Schumpeterian approach. Its regime of accumulation provides a distinct argument on the role of high profits, high wages and strong GDP growth in advanced capitalist economies during the 1980s and 1990s.

[100] Financialisation has been defined by various scholars in the heterodox economics to reflect the Marxist framework of structural transformation of advanced capitalist economies with three core tendencies: non-financial enterprises in financial activities; banks' direct lending to households and households' involvement in the formal financial system (see Lapavitsas, 2013b p.800).

globe. It provides a peer-to-peer comparison of the impact of financialisation via the rise of household debt in other post-Bretton Woods economies.

Sections 4.3 and 4.4 examine in detail the rise of household debt in the United Kingdom and other advanced capitalist economies from both supply and demand regimes. It investigates this phenomenon from different perspectives and presents a codified historical context in the wake of the household sector's quest to employment of household debt for its consumption expenditure. Section 4.5 provides a brief conclusion to the chapter.

4.1 The Dynamics of Household Debt in The Post-Fordist Era of Neo-Liberal Globalisation

4.1.1 The Post Fordist Period of Globalisation/Financialisation

The dynamism of household debt in the United Kingdom in the post-Fordist[101] era of globalisation/financialisation, between 1973 up to the global economic crisis in 2008, was definitively triggered by the economic-cum-political arrangement that ushered in the neoliberal agenda of deregulation and liberalisation of the banking and financial system, which then opened up the households to easily accessible credit for consumption expenditures.

Table 4.1: Schematic of Household debt in Advanced Capitalist Economies

<table>
<tr><td colspan="3">Neoliberalism</td></tr>
<tr><td colspan="3">Financial Globalisation/Financialisation</td></tr>
<tr><td>Deregulation</td><td>Privatisation</td><td>Liberalisation</td></tr>
<tr><td>Financialisation of non-financial enterprises</td><td>Financialisation of households & everyday life</td><td>Financialisation of financial enterprises</td></tr>
<tr><td colspan="3">Household debt</td></tr>
</table>

Source: Author's own elaboration from Lapavitsas (2013)

[101] Jessop (1992a, 1992b) argues that the "nature of Fordism according to the French regulation school dwelt on the labour process considered as a particular configuration of the technical and social division of labour; an accumulation regime, i.e., a macro-economic regime sustaining growth in capitalist production and consumption; a social mode of economic regulation, i.e., an ensemble of norms, institutions, organisational forms, social networks, and patterns of conduct which sustain and 'guide' a given accumulation regime; and a mode of societalisation, i.e., a pattern of institutional integration and social cohesion which complements the dominant accumulation regime and its social mode of economic regulation and thereby secures the conditions for its dominance within the wider society."

Significantly, these policies have led to the financialisation of the household with the dominance and hegemony of finance and the financial system, aided by the supply-side state policy after the collapse of the fixed exchange rate system. Ultimately, the hegemony of finance in Britain after the collapse of the Bretton Woods system has led to significant transformations of the British economy, leading to the global financial crisis in 2008.

The post-Fordism era refers to a period in British economic history with its flawed uneven development instigated by the active involvement of the state in economic-cum-political arrangements of the Thatcher government in the United Kingdom.

These features arose from the impact that the neo-liberalised financial system had on the household sector's access to debt platforms. Before the advent of the neoliberal policies of deregulation and liberalisation, the primary sources of demand structure by households were from real production and wage-led economic growth.

The Post-Fordism era of globalisation and financialisation can be highlighted in its role as a phase in a capitalist accumulation regime, with flexible production process based on flexible industrial machines; along with an appropriately flexible labour force, relative stagnation of Taylorism, supply-side innovation all dominated by private bank credit circulated in international money and capital markets.

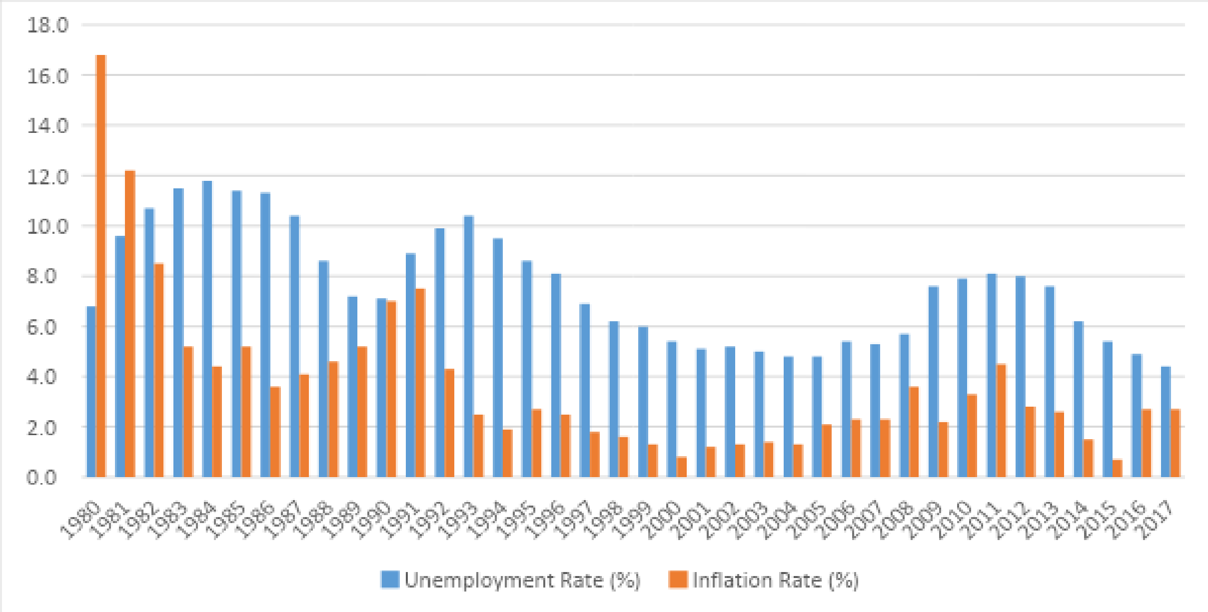
The main contending issues of the 1960s and mid-1970s were the role of the state in engaging Keynesianism as its topical macroeconomic policy and demand management in sustaining economic growth, output and full employment against the stagflation crisis of this epoch in advanced capitalist economies. The state embarked upon these policies with the implicit objectives of exchange rate stability and trade liberalisation with a fixed exchange rate system rather than the floating exchange rate system.

Thus, the neoliberal period of globalisation was effectively a period of financialisation, with the systemic transformation of Post Bretton Woods economies on the conduct, structure and configuration of non-financial firms, banks and households in the real economic sector of manufacturing and agriculture, in comparison to the Fordist accumulation regime.

In the main, the neoliberal agenda of reduced state intervention failed to achieve the same level of growth, output, low employment, low inflation and stable; investment rates or profit levels achieved during the post-Fordist regime of accumulation (Aalbers, (2016 p.50) defines financialisation as a "*pattern of accumulation wherein profit making occurs as a result of the dynamism in financial flows and channels rather than through trade and production*".

In Britain and many other advanced capitalist economies, the manufacturing sector suffered a setback during this period, with the emergence of high levels of inflation and unemployment. In the eighties, the unemployment rate was hovering around a two-digit rate between 10 to 11 per cent, whilst the inflation rate was high - as well reaching a high of 16.8 from the beginning of 1980 in the United Kingdom.

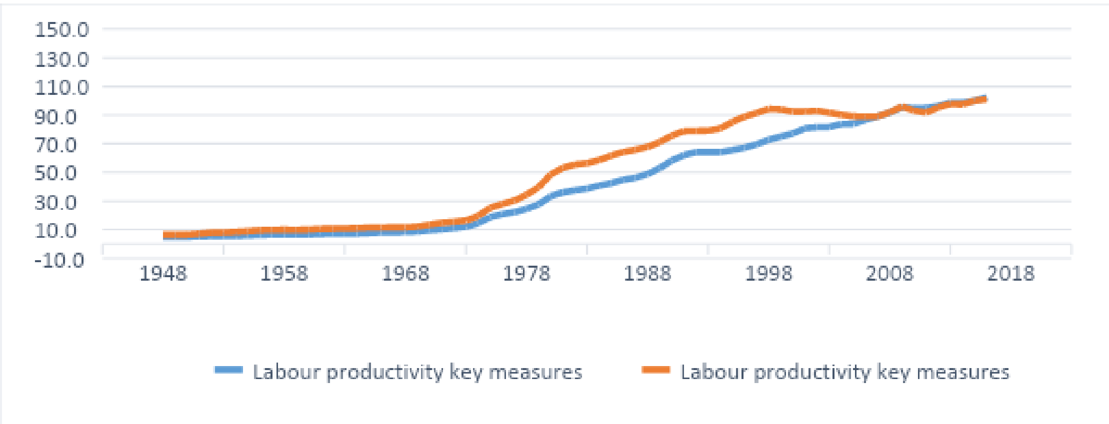
Figure 13: Inflation and Unemployment Rates in the United Kingdom (1980 -2017)



Source: Office of National Statistics, IMF Data Mapper

More specifically, labour productivity in manufacturing was lower relative to the total labour productivity in the economy from the period of fixed exchange rate systems to the period of floating exchange rate and deregulation in the early seventies past the credit crunch crisis in 2007/2008.

Figure 14: Graph of Labour productivity in the UK (1948–2016)



Source: Office of National Statistics, (accessed on 3 October 2018)

Additionally, as represented in the above graph, the neoliberal period of globalisation/financialisation saw a steady increase in labour productivity due to innovation in technology but this was alongside stagnant wages, as the labour share of income remained constant compared to the steady increases in prior periods.

The figure below gives a unique perspective on the move away from the real productive centre of manufacturing to the financial markets where speculative activities have dominated the financial markets whilst the real sector remained stagnant. Between 1990 and 2000, the movement in the gross value added for manufacturing hovered around 60-70 per cent. This contrasts with the period since the 2007-08 crisis where it has remained at the 80-83 per cent level.

Figure 15: Gross Value added in the manufacturing sector in the UK (1990–2017)

Source: Office of National Statistics (accessed on 3 October 2018)

Importantly, the post-stagflation regime in advanced capitalist economies such as Britain became pronounced as the economy experienced high unemployment, erosion of labour share of income, high inflation and ultimately income inequality. This precipitated the need for households to resort to augmenting their consumption expenditure with easily accessible bank credit.

Fouskas and Gökay (2012), in the context of other heterodox arguments, posit that the 2007/2008 financial crisis was a systemic crisis of neoliberal globalisation with its high financial superstructure dominating the financial system since the 1980s. This new sphere of finance capitalism added to the inherently contradictory tendencies of mature capitalist economies to trigger bubbles and economic crises, driven by debt-led consumption, which altogether undermine capital accumulation in the longer run.

Additionally, Brenner posits that this debt-led growth experienced in advanced capitalist economies was achieved via “asset-price Keynesianism” in 2007/2008; where the high growth of borrowing and debt platforms extended to the household sector by the financial systems (Fouskas and Gökay, 2012; Fouskas and Dimoulas, 2013).

With the collapse of the Bretton Woods System, the Thatcher-Reagan governments, deviated from the Keynesian aggregate demand management approach by imposing neoliberal globalisation on their respective economies, in order to arrest the stagflation crisis, low profitability, high wages and profligacy of the state.

The policy response of these advanced capitalist economies to arrest the falling rate of profit and the stagflation crisis during the era of globalisation/financialisation included: supply-side economics, privatisation and de-nationalisation of state corporations, welfare state retrenchment, decline of manufacturing output, and, importantly: an interest rate hike, hegemony of finance, post-Fordist regimes of accumulation achieved via flexible labour markets, and high levels of trade and investments.

The United Kingdom under Margaret Thatcher embarked on these neoliberal policies with the specific objective of limiting government intervention in the economy through the introduction of flexible labour markets, subtle regulation of trade and industry, low-income taxes, de-unionisation, free competition and the abolition of all trade restrictions.

Access to universal banking via the removal of banking restrictions; free movement of capital globally, the switch from a fixed exchange rate system to a floating exchange rate system all instigated massive expansion of household borrowing, and debt-led growth by the household sector in the United Kingdom.

Thus, the liberalisation policies helped to ensure that the economy was open to international trade as indirect bank lending was controlled in 1971 and households were still being subjected to credit controls by banks and building societies granting credit facility. The state utilised monetarism and interest rates policies in an attempt to maintain the pre-1970 golden era of full employment, productivity, inflation targeting and output.

The institutional arrangement that existed in the British economy during the 1980s was lacking in the ability to sustain the mode of growth of the Fordist mode of capital accumulation observed in previous decades in the 50s and 60s with the fall of the Keynesian welfare system (Jessop 1989, p.274).

The transition of the British economy into a full-fledged post-Fordist regime of accumulation, with flexible mass production and mass consumption, high wages and increased profits, was based on the premise of an innovative technology-intensive capitalist regime fully funded by international bank credit, alongside the deepening of household borrowing levels.

The attempt by governments of the United States and United Kingdom to arrest the stagflation crisis through the Thatcher-Reagan neoliberal agenda in the 80s, and with reduced government intervention and deregulation of the banking and financial system in lieu of the Keynesian Welfare system to achieve full employment, created the rise in the number of households resorting to using household debt to aid consumption spending (Jessop et al., 1988).

Brenner (1998;2006) argues that the move away from the Keynesian commitment to full employment and social welfare towards a neoliberal agenda has failed to resolve the stagflation crisis of the 70s as financialisation of households and inequality has subsequently followed in the British economy. Thatcherism in the mid-80s involved a radical demolition of the old social model of regulation and accumulation regime, especially Fordist high wage structure, the expansion of self-regulated markets at the expense of the well tested Keynesian welfare system of demand management, and increased productivity.

Essentially, the neoliberal epoch, aided by the switch to a floating exchange rate regime, was instrumental in the high growth experienced by advanced capitalist economies in the 70s, as a significant proportion of them experienced high growth, low inflation and low levels of labour strikes and industrial disruption after the 80s - although there were increases in the unemployment level and the level of inequality in the economy.

It can be argued that neoliberal austerity measures and policies accounted for the resurgence of British prosperity and reinvigorated the aggregate demand debate with the added growth in real per capita GDP[102] to 2.6% in the United Kingdom. This high growth in per capita GDP in the UK in relation to other European economies was a result of the switch to the floating exchange rate system and the continued use of household credit to augment consumption expenditures.

Thus, the stagflation crisis of the late seventies and the associated labour market disruptions stimulated the dynamism of economic policies and the movement towards the neoliberal privatisation agenda. The level of inflation rate in the United Kingdom averaged well above 7 per cent between the collapse of the Bretton Woods System in 1971 and the fall of the wage controls which shot the inflation rate to about 25% in the mid-seventies.

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[102] Growth in per capita GDP is the arithmetic sum of growth in productivity (GDP per hour), hours worked per employee, employment rates and the ratio of working-age to total population. (Gudgin *et al.*, 2015).

The prevalence of high deficit spending in the US, as well as the associated increase in global oil prices, resulted in a high level of inflation rate and an increase in unemployment experienced by major advanced capitalist economies in the world. This contrasts with the narrative provided by traditional classical economist which puts labour cost as the main factor when accounting for the stagflation crisis in this epoch.

Arguably, the strategy of wage control and price control of the Heath-led government in 1973, via the Threshold Wage Agreements, impinged on the stability of the economy with prices of goods and services rising in the subsequent years following global oil price increases.

Furthermore, the fundamental impact on the household sector was the de-regulation of the banking institutions in relation to lending, which led to faster economic growth and output generation in the first instance but concluded with a highly indebted household sector.

Additionally, in relation to the various economic crises in the economic history of advanced capitalist economies, from the Great Depression of the 1930s to the Great Stagflation crisis of the 1970s, the underlying challenge has always been the ascendancy of finance and the accompanying high unemployment and inflation rates, with its impact on real wages.

The sharp decline in interest rates in all major advanced capitalist economies encouraged the increased use of credit extended by banks to households to augment their consumption expenditure, which later fuelled international bubbles in real estate and income inequality.

More importantly, after the fall of the Bretton Woods system, the British government embarked on neoliberal globalisation, a way of using the reform of the banking and financial system with the reduction of high inflation and control over volatilities of financial markets as its primary target. The idea originated in the United States and was extended, through the efforts of the Federal Reserve chairman Volcker[103] in a Washington-London "Special Relationship"[104].

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[103] The Volcker Shock announcement in the States on October 6th 1979, by the Federal Reserve Chairman, Paul Volcker was a response by the US Treasury to resolve the dollar crisis of the late 1960s by pushing interest rates to unusually high levels in the economy in a bid to fight inflation and defeat labour. They argued that the strengthening of capital was crucial to the successful lift off of US finance to play an active role in global financial systems. This not only opened up the US economy to global markets, but it also became the platform upon which the profitability crisis of the US industry was restructured away from class relations and towards the sphere of global capitalism.

[104] This refers to the mutual agreements between both sides of the Atlantic to reinforce and honour resolutions passed in the Thatcher-Reagan neoliberal policies which has reinforced the broad parallels between the histories of the US and the UK monetary regimes. See Temperton, (1990) for a detailed explanation of the UK monetary policy.

The impact of the Federal Reserve resolution was a reduction in the inflationary trend, removing all controls and restrictions on banking lending practices and interest rates by subjecting it to the forces of demand and supply, thereby creating money and credit.

Arrighi argue that the impact of this shock to the macro-economy was felt in the real sector, with inflationary trends in prices and easy access to credit in the financial sector. Credit supply herein drove up asset prices - initially instigating mature capitalism owing to the international movement of capital and finance pushing up exchange rates, whilst also reinforcing economic recession, finance-led growth and financialisation (Arrighi 2003 p.20).

In Britain in the seventies, the effect of Volcker's Shock was felt with the Bank of England introducing money targeting as a monetary policy response, to managing high inflation and calming interest rates, just as the United States did during this same epoch.

The core objective of employing this policy was to fight inflation and also to help manage other macroeconomic variables such as interest rates and economic growth. The Bank of England managed the M3 growth targets via high-interest bank deposits and tax rates to curb inflation, with the introduction of the Supplementary Special Deposits Scheme otherwise known as 'the corset' in December 1973.

The average monetary base growth helped to reduce inflation after the 1973 oil price shock but ultimately began to accelerate from the first quarter of 1978 steadily to almost about 20 per cent by 1980. The Prime Minister's neoliberal agenda was introduced via the Medium-Term Financial Strategy (MTFS) in 1980, to gradually eliminate exchange controls, reduce deficits, achieving a deceleration in M3 growth.

The instability of the various monetary variables in arresting the growth of inflation and instability in the system resulted in the Bank of England accepting the fixed nominal exchange rate by joining the European Exchange Rate Mechanism (ERM) in October 1990. The objective was to use the fixed exchange system in facilitating a more stable inflation and employment rate in the economy.

Conclusively, in the post- Fordist era of mature capitalism the neo-liberal policies of globalisation/financialisation paved the way for the exorbitant rise of household debt. This followed speculation in the housing market; the de-unionisation and shattering of labour unions; and a weakened wage bargaining structure that ensured the financialisation of the British economy and expanded the need for households to borrow to satisfy their aggregate demand.

4.2 Household Debt and Capital Accumulation in Post-Bretton Woods Economies

This section provides an insight into the role that capital accumulation, or real capital formation, has had on households in other post-Bretton Woods economies, through the critical influences of state policy, public policy and supply-side policy that has placed neoliberal financialisation[105] at the centre of real capital formation; in lieu of the real sector which had engendered productivity and reduced income inequality.

The dynamism of household debt in the era of financialisation reflects a growing phenomenon in core countries such as the United Kingdom and the United States, pioneering neoliberalism as a unique path to generating full employment and economic growth. At the core of this form of financialisation lies: the dynamic nature of household debt - with its ever-expansive nature, the changes in relationships between parties, its unique stance in history and the integration of individuals and households into the financial system (Dymski, 2009; Lapavitsas, 2009, 2014; Lapavitsas and Powell, 2013).

Although it is instructive to provide a caveat that this study does not attempt to provide an exhaustive overview into the approaches to financialisation, it does attempt to provide a selective review into the approaches by other Marxist scholars into the dominance of finance, the financial sector and its relationship with household debt and households.

Indeed, the continual financialisation of the capital accumulation process cannot be under emphasised in these advanced high-income economies owing to the role that finance plays in bridging funds between the surplus areas and the deficit areas. The finance dilemma has always been how to allocate efficiently the scarce redistribution of resources such that it not only engenders economic growth, but it also stimulates aggregate demand in the economy.

It is to this end that various authors have often articulated the indispensable role of finance in the capital accumulation process, which increases economic growth at the pace at which capital is reproduced in the economy without reference to the impact of real sector production. This dichotomy is reflected in the hegemony of finance wherein there is an increase in credit creation, and by extension the price appreciation of financial assets and wealth as opposed to real economic growth.

Specifically, the departure from Keynesian aggregate demand management and from the welfare state to neoliberal financialisation, has not only increased inequality amongst

[105] Financialisation in this context examines the approach taken by Lapavitsas (2013a) as the financialisation of non-financial enterprises; financialisation of financial enterprises and, lastly, the financialisation of households and everyday life.

households in both the Anglo Saxon and other European economies but it has opened up a vast lacuna in the hegemony of finance with the quest to increase output and national income. It is to this end that the next section investigates the growth of household debt and the capital accumulation process from a detailed contemporary perspective of the different economies that experienced the Bretton Woods System.

The origins of financialisation as alluded to by Lapavitsas (2009b;2013) were instigated by the arguments of Magdoff and Sweezy[106] in the 1970s on the underlying hegemony of finance traced to the rise of monopoly capitalism[107]. In the mould of Marx's Capital, their arguments sought to explain a distinct stage of the capitalist mode of development by investigating the dynamism historically in its tendencies; the macroeconomic structure; and the political support it received in its development.

The monopolies referred to by Baran and Sweezy during this epoch in relation to finance and capital accumulation, has evolved through varying lengths and in different sectors, but most importantly its contradictory nature has found a new home within the household sector. The process of capital accumulation, on the one hand, is still evolving and usually reproduces itself into various forms and shapes under different platforms, particularly through the explosive growth of finance[108] (Foster 2006, p.1).

The United Kingdom underwent financialisation with the move to economic neoliberalism in the 1970s, which transformed the economy and placed finance at the helm of the social and political sphere. The ascendancy of finance further reflected - realities in the economy as it contributed to the wage stagnation of the working class and increased income inequality during the move away from Keynesian policies at this time.

The increase in rentier incomes and the tendency of the rate of profit to decline meant that British households were faced with double jeopardy in an era of stagnant wages, economic slowdown and increased living costs. Financial enterprises on the other hand were faced with

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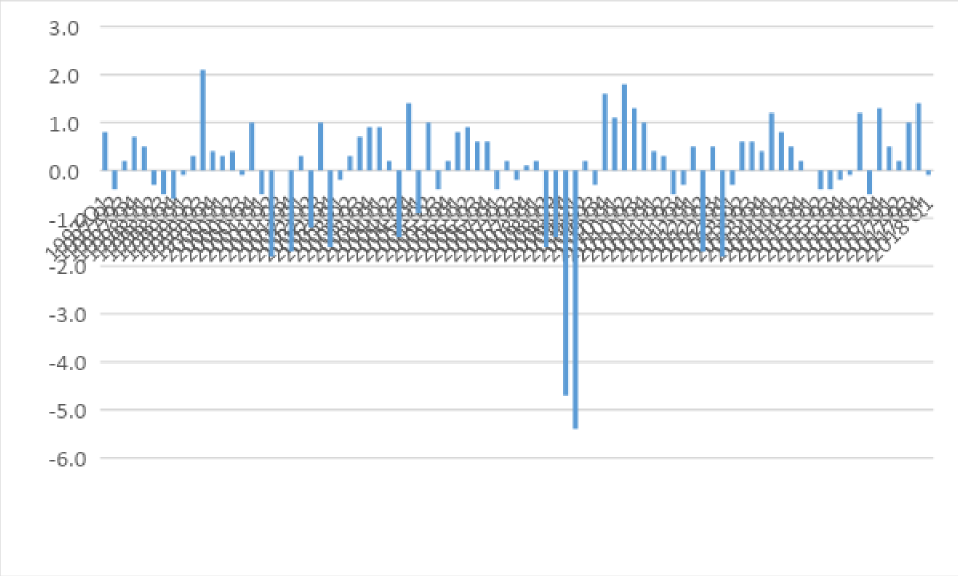
[106] The discussion herein draws on the insights of Paul M Sweezy "Monopoly Capitalism", New Palgrave Dictionary of Economics Vol 3 (New York): The Stockton press (1987) pp.541-544.

[107] Monopoly capitalism refers to the concept enunciated by Marxist scholars as the highest stage of capitalism which is dominated by large multinational corporations as against the general assumption that capitalist enterprises were actually small family-run businesses or enterprises.

[108] A term referred to as "The Triumph of financial Capital" by Sweezy and "Monopoly-Finance Capital" by Bellamy Foster.

not being able to extract profits from manufacturing due to the slowdown in the economy as shown by figure below especially leading to the global financial crisis in 2007/2008.

Figure 16: Growth rate of manufacturing sector in the United Kingdom (1997–2018)



Source: Office of National Statistics, C: Manufacturing: CVMSA, (accessed 03/10/2018)

Households were then deluged with credit and encouraged to take on credit to fund their lifestyle, as they became the only platform upon which banks could maximise shareholder value through the expropriation of future income. British households were inundated with credit, as the macroeconomic environment of low-interest rates and pay-back periods were elongated, which further drove them into using one form of debt to pay for other debt obligations as they arose.

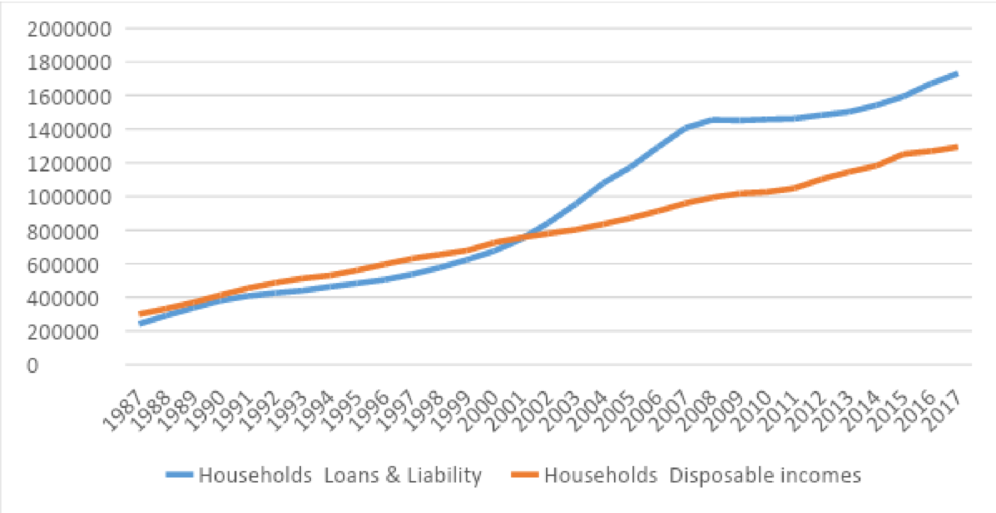
In addition, the systemic deregulation of the labour market and dynamics within the capital-labour nexus provided the impetus for the dominance of - neoliberalism and the gradual withdrawal of public provisioning, which made households resort to debt in satisfying their consumption expenditures.

Thus, the combination of the collapse of high Fordist wages and the unresolved over-accumulation crisis that saw the tendency for the rate of profit to fall has been at the heart of the financialisation of households and their everyday life in the United Kingdom. As financialisation seeks avenues to extract surplus profit from, households in the United Kingdom have been pulled into the dynamic in a way that that financial expropriation of households' wages became the core platform that financialised capitalism used in stabilising its inherent contradictions.

The level of debt in the United Kingdom continues to rise as a result of the unresolved over-accumulation crisis of the 1970s alongside the end of high Fordist wages, which has seen an increase in the use of debt to service consumption patterns of British households.

Importantly, as shown below in Figure 4.5, household disposable income in 1987 was at £292bn while loans and liability stood at the lower figure of £242bn; yet by the end of 2001, they were both at the same level of around £750bn. Between 2002 and 2017, a wide gap developed between both variables - with household loans hitting £1.73tr outstripping household income in the United Kingdom (Office of National Statistics, 2017)

Figure 17: Household Loans & Liability and Disposable Income, UK (1987–2017)



Source: Office of National Statistics, https://www.ons.gov.uk, series code; NIWK, RPHA

The rapid growth of household debt represents the growing trend of people falling into debt due to the stagnation of wages and the increasing use of debt facilities to satisfy the consumption expenses of British households. As seen in the graph above, this promises grave implications and adverse consequences for the stability of the economy with a higher percentage of the larger population being in debt on an ever-increasing basis.

On a macroeconomic level, the rise of finance in the United Kingdom has been dominated by a deepening move by the state to embark on austerity measures to maintain its growth levels, as it seeks to arrest the decline and stagnation in manufacturing in the United Kingdom. As households continue to grapple with the economic realities of a stagnant economy, it has become evident that the core sphere of financial capitalism is the rise of financialisation and the decline of the real economy in the United Kingdom.

The financialisation project in the United Kingdom was further intensified with the level of competition between other capitalist jurisdiction, which further put pressure on the capacity of the manufacturing sector to generate comparable profit rate when coupled with the low wage in the economy.

It is often argued that the tendency of profit to fall was a result of the changes in the core economies of other advanced nations interlinked in the globalisation battle, but the case of the United Kingdom is hinged on the changes in the labour-capital relationship.

The slowdown in the United Kingdom has placed the role of financialisation in a new light, with the global financial crisis in 2007 which saw declines in wages and adverse cuts to living standards reduced to depths never seen before in the United Kingdom. Albeit at lower interest rates, British households have been forced to resort to taking on credit to supplement their stagnant wages. The impact of low-interest rates expanded household consumption patterns in the first instance, whilst also expanding the supply of credit facilities by these financial institutions.

Thus, the inherent tendency towards stagnation from the capitalist mode of development occurred in the United States, and by extension the United Kingdom, because of the rapid transformation of capital and massive capital account surpluses generated, along with the inability of capitalists and the government to find productive investment vehicles to invest funds into during this era, unlike the previous regime.

An argument favoured by Michal Kalecki and John Steindl on the inability of a monopoly capitalist economy to absorb all actual and potential economic surplus, is that this always leads to the tendency for stagnation via the chronic over-capacity in production.

The slowdown in the United States economy had a drastic and adverse effect on other core economies such as the United Kingdom - as wages were depressed and investments reduced in the face of a contraction in demand. Through the liberalisation and deregulation of the financial system, the United States and British governments, encouraged financial institutions and other multinational corporations to embark on expanding into foreign markets in their quest to sustain high profitability, free enterprise and economic growth.

The focussing of cheap credit into the economies of advanced global capitalist economies changed the dynamics of the British economy, as households were encouraged to make purchases using credit cards when their current wages were insufficient in meeting their needs.

Brenner's investigation into the financialisation of the household sector and economies is of paramount interest to the discourse of the rise of consumer indebtedness, as it opens up the debate of the role of finance and its ascendancy as a response to the stagnation crisis of the seventies, and the subsequent move away from the sphere of real sector production in advanced capitalist economies - first in the United States and then replicated in the United Kingdom.

Arrighi's (1994) assertion of the incidence of financialisation focused on the events in the early 80s, arguing that the US dominance of world trade and global demand resulted in the dependence by peripheries of the US economy for food, energy and industries. His argument related the post-1973 events ensured a long-term historical approach to capitalism with the emergence of capitalism and his reference to Marx's view of capitalist development at a global level and not at the national domestic level.

Arrighi's argument also centres on the impact of profit squeeze on production processes as a result of the intense inter-capitalist competition between high-income countries, which in turn led to the low wages paid to the workers, and eventually - the resistance of these workers to the low wages which were paid to top them to sustain the capitalist profit rate and reduce the variable labour costs in production.[109]

Financial stagnation always follows a financial expansion in a cyclical path, in a different shapes and forms, within the same enclave with origins in the crisis of the 1970s, augmented by the liberalisation and deregulation policies of advanced economies which are always dispersed to other core economies and periphery economies.

Thus, this thesis argues that the dynamism of the British economy in stagnation and the problems of the 1970's era is deeply rooted in both the inherent structural deficiencies of lack of public investments and the dichotomy between the real economy and finance expansion.

In summary, as finance expands and dominates the world economy, financialised capitalism becomes enshrined in the socio-political sphere, integrating households into the financial sector. The financialisation of everyday lifestyle in the United Kingdom is a unique feature that requires special attention as it exposes the ways in which the British economy has been transformed in the era of financialised capitalism and the implications that this has for the financial stability of global markets.

[109] Giovanni Arrighi and Beverly J. Silver, "Labor Movements and Capital Migration: The US and Western Europe in World-Historical Perspective", in Charles Bergquist, ed., Labor in the Capitalist World-Economy (Beverly Hills, CA, Sage, 1984).

4.2.1 Household Debt and Capital Accumulation in the United Kingdom

Household debt can be said to be an off-shoot of the financialisation project that originated from the advanced capitalist economies in the seventies, with the crucial features of: reduced government intervention in the financial markets, financial expansion, and the liberalisation of exchange rates; all of which unleashed credit and placed the banking and financial system at the core of all relationships in the economy.

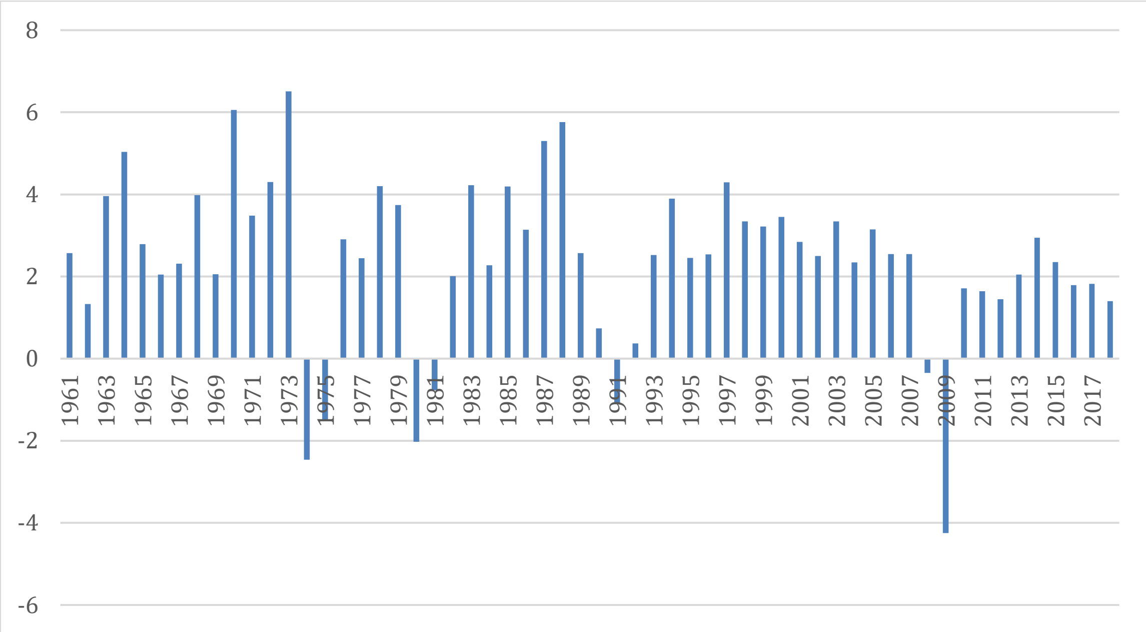
Essentially, financialisation was employed as a policy measure by the British government to arrest the profitability of the manufacturing sector and the suppression of labour markets to extract surplus value in the United Kingdom.

More importantly, the altered behaviour of banking institutions and financial institutions in moving funds to deficit areas from surplus areas through lending was aided by the inclusion of the household sector in the realm of finance through borrowing and lending, all in a bid -to increase their profitability (Lapavitsas, 2014).

The emergence of financialisation in the United Kingdom, after a period of high growth and high wages, became intensified due to the deregulation and liberalisation of the financial system, which invariably helped in instituting the unequal relationship between capital-labour and the hegemony of neoliberalism in the United Kingdom.

Financialisation as evidenced in Figure 4.2.1 below; in mature economies, especially in the United Kingdom, flowed in in a cyclical manner, in three bouts, with the decline in the rate of growth of gross domestic product; the weakness of productivity growth; decline of labour productivity and labour wages leading to the rise of capital and the hegemony of finance in these economies.

Figure 18: Real Annual Growth Rate in the UK against other OECD, nations (1961–2017)



Source: OECD (2018), Real GDP forecast (indicator). doi: 10.1787/1f84150b-en (accessed on 03 August 2018)

More importantly, the pace of capital accumulation declined in the UK, US and Germany during financialisation with economic crises between 1973-75, 1980-82, and 1990-92 and a high rate of unemployment in the labour force. In comparison to the period of high growth and boom of matured economies, in the 70s, the subsequent period of neoliberal financialisation initially brought high economic growth. It also resulted in a move away from productivity resulting from weak productivity growth as the Bretton Woods System collapsed in the mid-seventies

Marx argued the importance of labour productivity as a topical issue in the determination of surplus value for profit in the capital accumulation process and in the phases of capitalist development.[110] The loss of labour income share in advanced capitalist economies intensified the course of financialisation, with the downward pressure on wage income coming as a result of the deregulation of the labour market and banking sector, resulting in the use of household debt to augment consumption and the ascendancy of profit in these economies.

Thus, the ascendancy of finance and dominance of the neoliberal project has led to the decline in labour and the growth of inequality from the 1980s to date, leading to the use of

[110] Marx, Capital, vol.1, pp.647-648

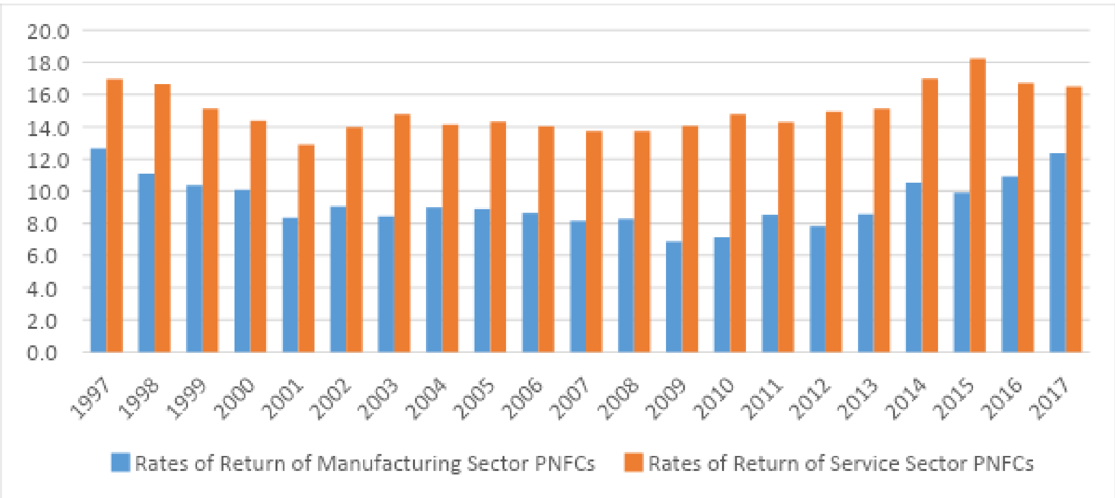
household debt platforms in augmenting the deficiencies in labour share of income. Financial profit continues to dominate the realm of finance and production with little or no recourse to the labour share of productivity.

Essentially, the growth of labour compensation continues to decline from the 1980s, and the ascendancy of financial profit is rising simultaneously as the state continues to dissociate itself from the realm of production and public utilities, leaving the realm of production financialised by private agents in the quest to increase profitability.

Thus, deregulation and liberalisation of the financial system via the financialisation project has helped in facilitating the financial realm to engage with the international monetary and financial systems through the flexible exchange rate systems of the Bretton Woods System - which has succeeded in removing all financial controls and restrictions on the movement of capital.

To a large extent, international mobility of capital became the new objective, as it sought the most productive platform that could negotiate the highest return. (Lapavitsas, 2010) stated that in the realm of production, a direct relationship exists between the finance sector and real accumulation as it becomes a platform for the hegemony of finance (as represented in Figure below), where profit rates have consistently outstripped the returns from manufacturing in the United Kingdom.

Figure 19: Manufacturing and Service sector profit rates (1997–2017)



Source:https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/datasets/profitabilityofukcompaniesreferencetable

Financialisation has always been present in advanced capitalist economies, from the Great Depression era to the persistent stagnation crises of 1973-1993, with the tendency for uneven development to generate a long boom, intense competition between capitalist enterprises, low profitability and stagnation of output in these economies (Arrighi, 2007 p.360).

In the United Kingdom manufacturing sector, the profit rates have been lagging behind the rates from financial services. More importantly, the share of total returns from PNFCS as accounted for by the financial services sector has been on the increase; yielding more than the share of profits from real sector production in the manufacturing industry since the 1980s. By 1997, manufacturing sector profits recorded a paltry 12.7 per cent return against the 17 per cent from the financial services.

Thus, the manufacturing sector - in their quest to not only increase their output but also their profitability - began to seek out investments in the financial sector as a way of increasing their source of revenue and profit levels in, not just the United Kingdom but in other countries as well.

The dynamics in world markets during the seventies and eighties were mixed, particularly in the core economies of the United States and Great Britain. The intensification of competition in capitalist development between these economies led to the decline and fall in productivity and profitability. The inability of the capitalist to take a position on the rise of finance and the tendency of the global markets to respond to declines in the manufacturing sector became alarming as the desired rate of profit was not generated by the local economy with the rise of cheaper imports.

The explosive growth of the Euro-Dollar market in London and other allied financial centres of the world from the 1950s through to the 1970s made assets more than quadruple from the initial level raising the profitability and made the financial expansion of the US economy plausible.

Importantly for the British economy, the inflow of foreign capital into the Euro-Dollar market opened up the financial services centre in London and brought the United Kingdom to the forefront as multinationals became interested in investing in financial assets.

In seeking profitable and productive ventures to invest in, this vertical and horizontal integration of excess liquidity became the platforms upon which currency speculators and financial institutions, through financial re-engineering, looked to sustain their profitability. This strategy not only undermined the stability of the US system of fixed exchange rate, but it also restrained capitalist development in the US and opened up the British economy to the global financial markets.

The Euro-Dollar market also benefited from the “oil shock” during this period, as the $80 billion petrodollars invested in the market generated bouts of speculative activities and new credit created outside of the traditionally controlled bank platforms. This stimulated inflationary trends in the economy as a new level of credit was created, and the liquidity in the market added to the crisis of profitability in advanced capitalist economies.

The expansive supply of credit along with lax monetary policies of the United States and the United Kingdom not only combined to initiate instability and a crisis of profitability in the seventies but it also led to the reticence experienced in these economies, both in the short and the long run.

Harvey (1990) reaffirms Arrighi's contribution, arguing that the role of the state was supporting its hegemony through monetarist policies in establishing new realms of capital accumulation through the dominance of finance. The shift of supply-side money supply to the realm of finance reinforces the assertion that finance capital always dominates the realm of the business world and precedes the accumulation of capital.

Brenner (2003) argues that the nature of uneven development is the underlying challenge in the process of capitalist development, as countries in the periphery struggled to catch up with the core economies. Furthermore, once they succeeded in catching up, a crisis of profitability ensues, producing long boom periods such as those of the post-war period of the seventies.

Brenner contends that from the 1970s until 1993, the oversupply of productive capacity underlies the crisis of profitability and that the ebb and flow of devaluations and evaluations via the Reagan-Thatcher monetarist revolution of 1979-80[111] not only provoked the growth seen in subsequent periods but also sustained the level of economic growth in the United States.

Brenner posited that the high-profit rates in the United States were the result of consecutive years of erosion of labour power during the 1930s slump and the war years, which led to massive investments and access to technical innovations developed during the First World War.

Brenner further argued that high government expenditures and facilitation of the war efforts were instrumental in dampening the economy as aggregate demand fell during the war

[111] Brenner's account of the sequence of events that led to the monetarist revolution (or counter-revolution, as I prefer to characterise it) is the weakest link in his account of the long downturn. For one thing, he leaves us wondering why, under conditions of overcapacity and over-production, Keynesian stimuli brought about increases in prices rather than output, and having done so, why price increases did not result in higher rates of profit.

More importantly he does not tell us how and why US policies designed to restore US manufacturing competitiveness"- resulted instead in record breaking US trade deficits, despite a simultaneous escalation in protectionist measures (the Multi-Fiber Arrangement of 1973, the Trade Act of 1974 against "unfair trade", and the tightening of so-called "voluntary export restraints" imposed on East Asian countries).

period. This effectively helped to kick-start a revival that ensured that the labour unions and other workers' movements were exempt from rapid upswings in the labour market and shocks to the economy.

United States capitalists further entrenched the hegemony and interests of US capital in international trade via the reconstruction plan, known as the Marshall Plan, in Europe and the rest of the world, as a way of revolutionising the international payment system and providing post-war economic recovery. The adoption of the Bretton Woods System ensured that these interests were guaranteed - as the US dollar became the standard of payment in international trade.

Brenner's argument on the role of uneven development and competition became evident as vast military spending and US capital resulted in increased trade deregulation and immense competition from Germany and the South East States who produced consumer goods at a much cheaper cost than the United States. The US continued to see a massive increase in its exports and trade surplus as a result of innovation and technological advancement.

Thus, any potential shocks in the economy were matched by US multinational companies searching for new markets, and the resulting flow of income from expansion offset these shocks. The US dollar also helped to accentuate the US's hegemonic status as it supplied the necessary credits to the world and ensured that it maintained a trade surplus and balance of payments, in contrast to the Stop-go policies of the British government during the same era.

Brenner argued that the collapse of the uneven developments of advanced capitalist economies in the 1960s laid the foundation for the eventual devaluation of the dollar and the floating of exchange rates, coupled with the effects of the Vietnam War on the US economy. The new regime of floating exchange rates ensured the hegemony of finance over industry, as US capitalists enjoyed internationalisation of finance and trade under the regime.

This resulted in the dominance of finance over industry, such that the profit terms originating from speculating activities were more significant than the profit in the sphere of production. In the United Kingdom, the share of profits resulting from manufacturing was lower than the share from financial activity as the surplus value from production was extracted via the purchase of financial assets in the form of derivatives, bonds and equities of the most productive firms.

Marx argue that the historical development of capitalism is enshrined in the circulation of commodities and its potential to result in crisis is an indication of the relations in capitalist production to facilitate the fall and rise of the rate of profit. He further asserts that in the sphere of circulation and production, financial intermediation (especially the credit system) provides the requisite linkage to the processes of capitalist development in facilitating reproduction and engendering speculative activities (Marx 1968, p. 508).

Thus, the rate of profit is essential in the analysis and dynamics of capital accumulation and in the crisis in international political economy. That is, the capitalist economy's ability to generate commensurate profit levels and growth rate is synonymous to crisis and downturn in the economy.

Marx argues that credit and financial institutions, especially the banking system, are necessary for capital accumulation and crisis such that "if the credit system appears as the principal lever of overproduction and excessive speculation in commerce, this is simply because the reproduction process, which is elastic by nature, is now forced to its most extreme limit.

Thus, to a large extent, this only goes to show how the valorisation of capital founded on the antithetical character of capitalist production permits an actual free development only up to a certain point, which is constantly broken through by the credit system. The credit system hence accelerates the material development of the productive forces and the creation of the world market... At the same time, credit accelerates the violent outbreaks of this contradiction, crises, and with these the dissolution of the old mode of production." (Marx 1981, p. 571-2).

Thus, at the core of this relationship is the rate of profit in capital accumulation such that the real crisis occurs as a result of the interaction between overproduction in capitalist production, the influences of competition and the credit system (Marx 1963, p. 512).

To summarise, this section looked at the import of the credit system as a response to the profitability crisis of the 1970s through the ideals of deregulated financial markets and liberalised credit markets, which further deepened the relationship between the working class and capitalists in the share of national income. The next section will investigate the proximate causes of the growth of household debt from both the demand and supply side in the United Kingdom.

4.3 The Proximate causes of Household Debt in the United Kingdom

4.3.1 Demand-Side Economics

The section discusses the dynamism behind the increasing upward trend in household debt as a result of the financial expansion which placed households in a precarious situation whereby developments in the credit markets provided the basis for access to cheap credit. It looks at the way that the banking relationship has blossomed and the ever-changing role of the government in regulations in the financial markets as households continue to struggle in the era of wage stagnation.

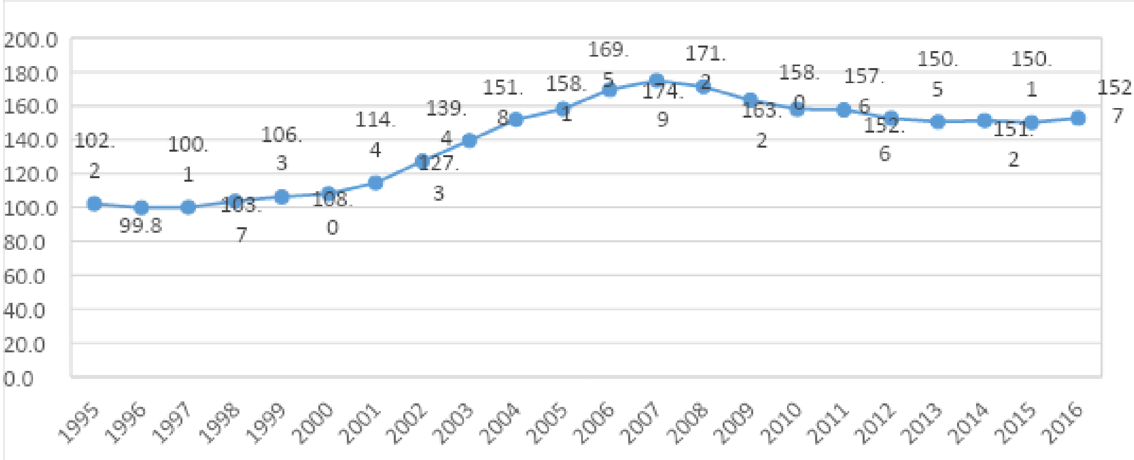
Fundamentally, the Anglo-Saxon neoliberal policy not only led to the transformation of financial markets, but it also changed the way by which households employed demand-side economics which led to the rise in the use of household debt in the United Kingdom. Importantly, it looks into the ways that the dominance of finance has changed the way relations between capital and labour operate in the United Kingdom, especially after the collapse of the Bretton Woods System and the events that led to stagnant wages in the United Kingdom.

The United Kingdom's economy underwent significant transformation in its development, with substantial implications for the productive sector, labour markets and the welfare state, from the period of deregulation and liberalisation in the seventies to one of the most severe financial crises in 2007 triggered by the default of subprime in the United States.

Specifically, the United Kingdom's level of household debt as a proportion of GDP has been rising steadily, reaching a high of about 152.7 percentage of net disposable income to date, with implications for the financial stability of the economy. Private sector borrowing has grown astronomically with the growth of financial markets, investments and capital flow and with no corresponding investment opportunities to take up the excess funds.

Household debt increased from a meagre 99.8 per cent in 1996 to a whopping 174.9 per cent leading up to the credit crunch crisis in 2007, as evidenced by the figure below. The explosive growth of household indebtedness continues as income inequality increases in advanced capitalist economies such as the United Kingdom. This is in comparison to the golden age of capitalism wherein household debt was very low and only came to the fore in mortgage applications rather than general everyday consumption needs.

Figure 20: Total Household debt as % of net disposable income, (1995–2016), UK

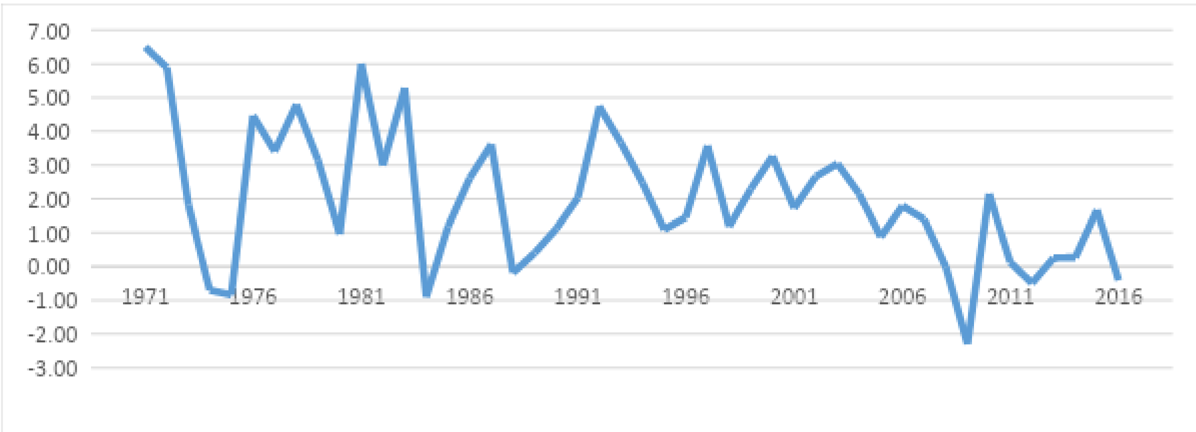


Source: ONS (2018), accessed on 25 May 2018)

Furthermore, the growth of labour productivity in the post-credit crisis has not helped to increase wage income or produce a higher standard of living or to alleviated inequality in all layers of the economy. The corollary to this is that the increase in the consumption level of households in the face of stagnant wages has been made possible because of the availability of credit by banking institutions.

Between 1972 and 1975, labour productivity was initially at -0.70 but increased to 4.70 in the United Kingdom shortly after the collapse of the Bretton Woods System and between 1972 and 1975 dipped further to -2.30, leading to the great credit crunch crisis in 2007/08. That is, as wages continued to stagnate in the era of declining labour productivity in the United Kingdom the rate of profitability was also falling at a faster rate than output level.

Figure 21: Annual growth rates of labour productivity, (1971–2016), UK

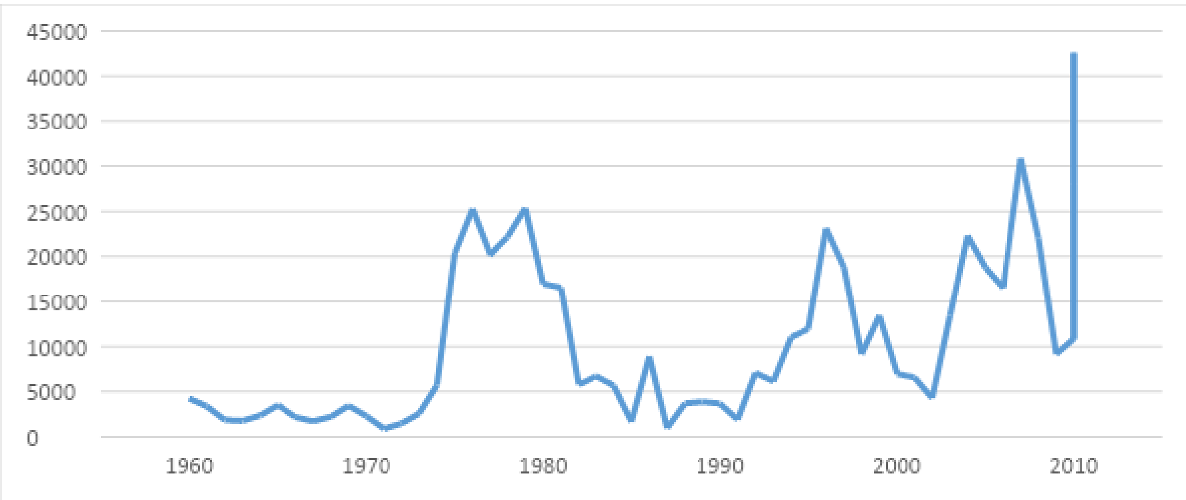


Source: OECD (2018), Labour compensation per hour worked (indicator). doi: 10.1787/251ec2da-en (accessed on 24 May 2018)

The deregulation and liberalisation of the advanced capitalist economies in the seventies not only changed the dynamism of output but also laid the foundation for austerity measures; namely cuts to public spending and welfare by the British state in a bid to ensure full employment, even in the face of a large share of labour productivity[112] of workers. This reiterates the thesis submissions made earlier relating to the rising demand for debt facilities and the move away from the Keynesian welfare state to neoliberal policies to generate and sustain the desired profit rate of capitalist enterprises.

The decline in export market share in the United Kingdom has led to a fall in growth statistics, with consumption as the main contributing factor to growth. As households continued to grapple with the dynamics of a capital-labour relationship, substantial declines in employment did not yield the requisite level of high labour wages and output. Labour market deregulation and international movement of capital flows provided the basis for a consumption boom and current account deficits that reinforced the severe restrictions and helped to maintaining consumption levels in the United Kingdom.

Figure 22: Total Private flows (USD million) in the United Kingdom (1960–2014)



Source: OECD (2018), Private flows (indicator). doi: 10.1787/4d31a9d6-en (accessed on 25 May 2018)

Moreover, it can be argued that the continued dynamics in the capital-labour relationship and the systemic deregulation of the labour market has provided the foundation for the neoliberal project to steadily withdraw state support for the provision of the welfare

[112] Labour compensation per hour worked is defined as compensation of employees in national currency divided by total hours worked by employees. Compensation of employees is the sum of gross wages and salaries and employers' social security contributions. This indicator is measured in terms of annual growth rates and indices.

state, particularly reducing household income levels. Households' ability to spend out of their income was adversely impacted as they now had to resort to debt facilities to augment their needs.

Thus, financialisation of household income and everyday lives of individuals in the United Kingdom continues to shift the paradigm from the real productive sector to the household. This transpires in advanced capitalist economies as financial institutions continue to lay claim on the future income of households via credit infused consumption.

4.3.2 Supply-Side Economics

In the first instance, supply-side scholars[113] have alluded to the important role that financial markets play by granting access to households, which augurs well for the economy as it increases the rate of financial inclusivity and generates a multiplier effect on the economy at large. This approach views access to credit in a low-interest rate era as a means of building wealth; an approach which was strengthened by the adoption of neoliberalism by the Thatcher-Reagan administrations as a policy response to the stagflation crisis of this epoch.

The dominance of financial institutions, especially the banks in England during this period, increasing competition between firms in the financial markets to sustain profit rate via the financialisation of the housing market. This was achieved via the extension of cheap credit and increased capital flows between economies, with surplus funds seeking profitable investments. Supply-side economics examines the various processes and developments existing in the United Kingdom, which supported the neoliberal project of dominance in the financial system at the expense of debt financing of the real sector.

The resolve by banking institutions in the United Kingdom to sustain profit rate, as well as in other advanced capitalist economies, is reiterated by the explosive move towards the financialisation of household income revealed by the increased growth of unsecured lending to the household sector, personal lending, and mortgages (Lapavitsas, 2009a, p.27).

Lapavitsas argues that the increasing trend of bank lending to households to generate profit rate had been sustained via its traditional mediation process of moving funds from

[113] See Goldsmith (1969); McKinnon (1973); Shaw (1973), Levine (2005) and especially households' access via these studies Crotty (2005); Wray (2009); Rousseau and Wachtel (2011); Bordo and Rousseau, (2012); Cecchetti and Kharroubi (2012); Schularick and Taylor (2012); Jordà, Schularick and Taylor, (2013) for more discussion on the role of access to financial development in an economy.

surplus areas via the capital markets to deficit areas - aided by the state suspension of social needs to the economy in the United Kingdom. Thus, banks generated financial profit from households via the extension of debt platforms to households by making claims against their future incomes at the banks desired interest rates, with no recourse as to how these households would pay off their obligations.

In addition, Dymski (2009) aptly reiterates the unequal relations that existed between households and the banking institutions as objective of receiving and extending credit funds were uniquely different. Banks extended these credit facilities to households to sustain their profit rate and maximise shareholders objective, whilst the motivation for households to accept the credit terms is the provision of their basic needs and purchase of consumer products. The systematic exploitation of the workers by the banking institutions ensured that the workers were financially expropriated at most times by these institutions (Lapavitsas, 2009).

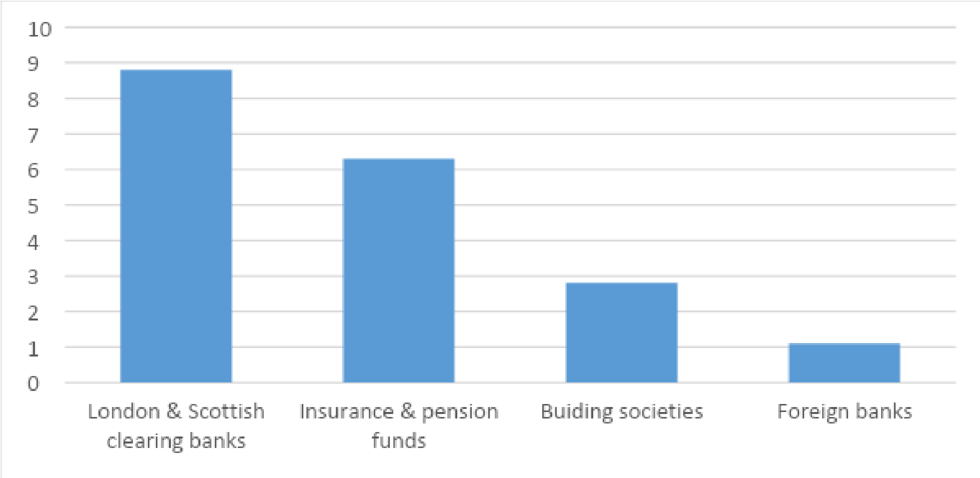
The credit crisis that originated in the summer of 2007 in the United States and subsequently moved to the UK and other advanced capitalist economies typified the level of expropriation by financial institutions on vulnerable households, which was done by extracting profit from current, as well as future, household income, with no increase to savings increasing the indebtedness of these households and decreasing consumption globally.

The Bank of England was at the centre of all financial and banking relationships in the United Kingdom, influencing financial stability and ensuring that all other participants adhere to the structure. The emergence of large highly globalised universal banks transformed the financial landscape and the relationship between other financial intermediaries.

Between 1950 and 1960, about 85% (GBP8bn) of total banking assets, representing about 30% of gross domestic product (GDP), was held by just 16 British and Scottish clearing banks whilst the remaining 15% was shared by other financial institutions; namely insurance and pension funds, building societies and foreign-owned banks.

The increased supply of credit by banking institutions and the altered conduct of these institutions in mediating funds between surplus and deficit areas has seen household debt in the United Kingdom reaching astronomical levels in the last half century. The number of banks in the United Kingdom increased as a result of the impact of the privatisation of the Banking sector, giving rise to the explosive growth of supply of credit in the country by these institutions.

Figure 23: Representation of Financial intermediation in the UK



Source: The Radcliffe Committee Report on the workings of the Monetary System (1959)

The United Kingdom monetary policy accounted for several developments that led to the explosive growth of household indebtedness and to the continued trajectory of the dominance of finance capital at the expense of real productive investments.

The banking sector developed as a function of the economies of scale and institutional regulation of the market structure, which resulted in efficiency gains and the reduction of cost of service provision and led to the consolidation of the banking industry in the United Kingdom. Financial liberalisation and deregulation of the financial markets in the late seventies not only removed the institutional restrictions and constraints but also provided the platform for these banks to become competitive by expanding into new markets and increasing their profit rates.

The dynamism seen in the banking sector during this period was further enhanced by the introduction of the Competition and Credit Control 1971, by the Bank of England, with the sole objective of altering the structure of the UK financial system by promoting competition in both the banking and non-banking financial sectors.

The reforms sought to foster increased competition between credit intermediaries and traditional banking institutions in the provision of retail banking services in the United Kingdom. Banking institutions experienced some challenges with the expansion of the banking industry to include fringe banks,[114] as these credit intermediaries not only sought to stop interest

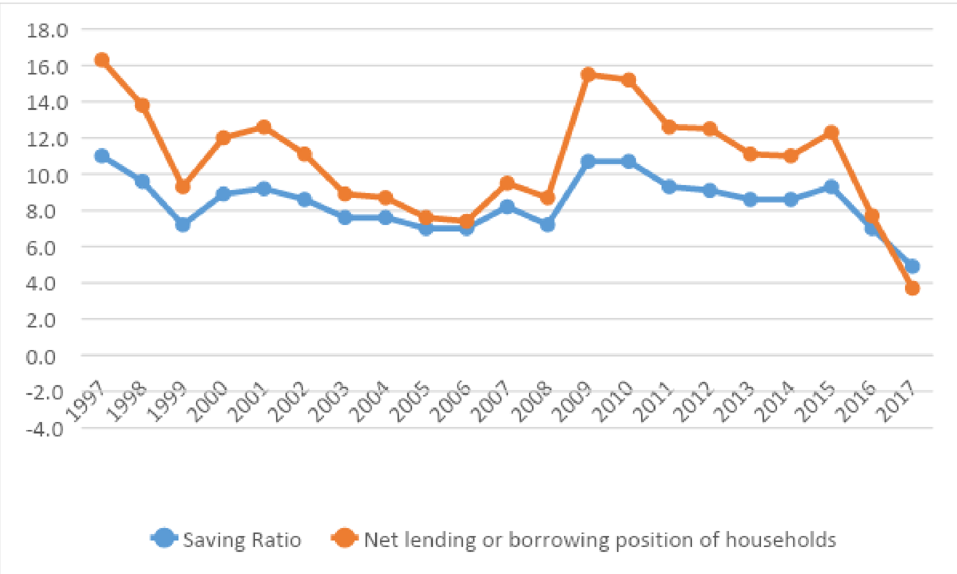
[114] See Reid (1982) for a detailed description of the role of fringe banks in credit provision as they were excluded from the competition and credit control 1971 reforms which effectively opened up the banking industry and ultimately ended in the Secondary Banking crisis of 1973-75.

rates collusion on loans but also began to participate in the wholesale market as well as the retail banking services.

Additionally, the relaxation and extension of the various requirements by the Bank of England not only helped these banks to compete in the retail sector but also gave them more flexibility to engage in universal banking and large ticket transactions, thereby helping to sustain the fictitious debt-led economic boom in the 70s. Capie (2010) argues that the Competition and Credit Control reform played a considerable role in the economic boom by supporting the removal of restrictions and constraints in property development.

The institutional support by the Bank of England in providing a platform that engendered competition, also helped to foster the development of a sophisticated credit sector during this epoch and led to the explosive growth of credit by the end of the 1970s. Primarily, Davies *et al.* (2010) explain that between 1960 and 1970, real lending growth exploded for both households and businesses as the international monetary system changed course and exchange controls were removed; with the deregulation of the financial sector encouraging the supply of credit and the hoarding of foreign exchange by individuals in the United Kingdom.

Figure 24: Real lending rates to Household & Savings rate in the UK, (1997–2017)



Source: Office of National Statistics, https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/bulletins/quarterlysectoraccounts/octobertodecember2017;

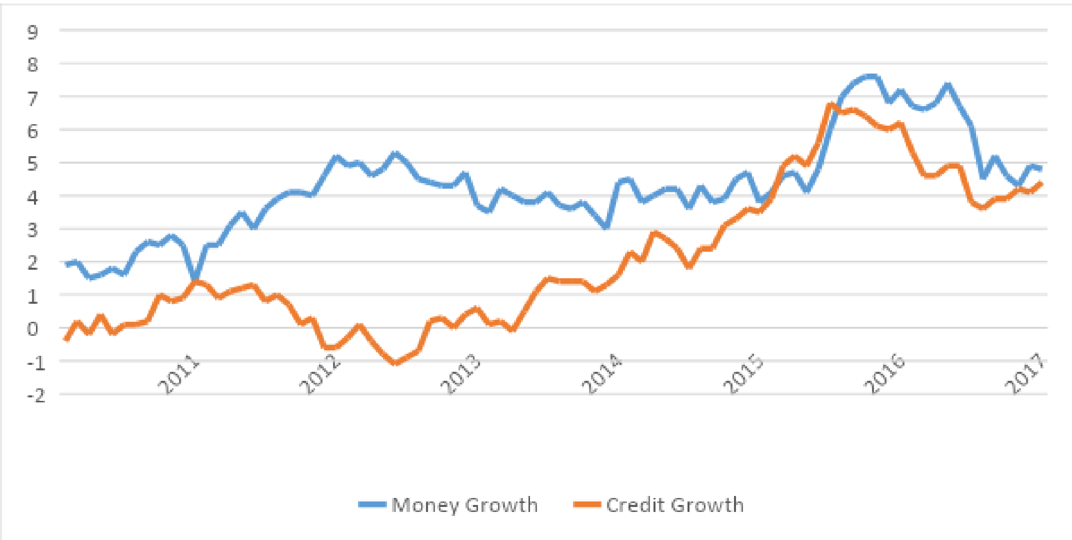
Furthermore, the Banking Act (1979) was introduced to increase competition between banks in the United Kingdom, establish a regime of banking supervision and help to build a system to differentiate between banks and other intermediaries. The challenges of these features increased barriers to entry for new banking firms, whilst also creating a highly competitive banking sector, with the switch from the Bretton Woods System of fixed but adjustable exchange rates to a floating exchange rate system.

The growth of credit supply was facilitated by the removal of exchange rate controls, whilst the liberalised financial markets encouraged international financial flows - with the sterling stable and gross capital flows as a percentage of world GDP accelerating during this epoch.

Banks in the United Kingdom thereby increased in size providing banking service not just in the domestic market but also in the global markets, with London playing a pivotal role in this development. Banks expanded their provisions to include all financial products that universal banking permitted, with a host of them involved in international large ticket transactions from derivative products to swaps and other financial engineering services from their offices and the City of London.

The growth of credit supply and finance was further buttressed by the IMF (2006) report, wherein the interjection of financial re-engineering and globalisation increased the level of credit supply in the economy to greater than previous levels, as evidenced by the figure below.

Figure 25: Total money and credit growth (excluding intermediate OFCs)



Source: Bank of England, https://www.bankofengland.co.uk/statistics/visual-summaries/money-and-credit-statistics (accessed 4 October 2018)

The concept of universal banking was thus birthed as the UK banking industry, freed from all regulatory constraints and restrictions, began to invest and diversify into new regions and other sophisticated financial products to increase its profit rate and the returns owing to its shareholders. Increased competition amongst banks saw competition for household savings and a divestment away from the traditional role of providing surplus funds to deficit areas.

Subsequently, the removal of exchange controls made financial liberalisation and deregulation easier as the City of London received more recognition in financial markets and the London Stock Exchange (LSE) became a beacon of financial innovation and engineering in the eighties.

By 1986, the LSE had become an international player in the securitisation market, instituting the "Big Bang" reforms needed to remove all constraints in the provision of financial instruments on the London Stock Exchange which encouraged flexibility in trading of these financial assets (Plender 1986, p.40 and Gower 1988, p.14).

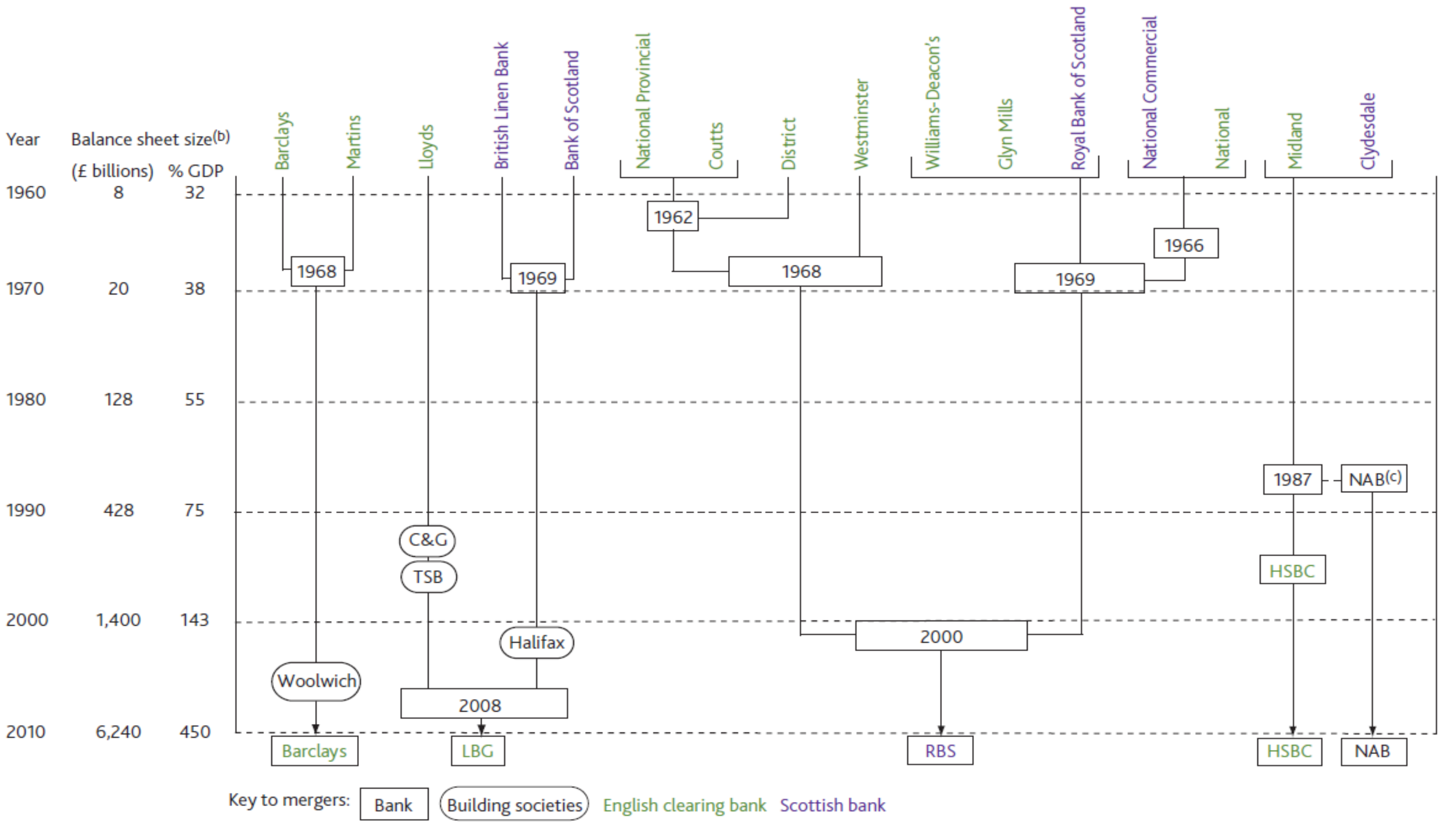
The forced removal of the United Kingdom from the Exchange Rate Mechanism in 1992 is a topical issue in the regulatory challenges faced in Europe and the British domestic economy, with the introduction of inflation targeting policy by the apex bank to maintain price stability. This policy was adopted to cater for the movements in inflation ratees, with regular meetings between the Chancellor of the Exchequer and the Governor of the Bank.

The favourable supply of credit has added to the growth of consumer indebtedness in the United Kingdom, propelled by the adoption of the inflation targeting policy of the Bank of England and its subsequent independence in May 1997.

This opened up the financial markets and with it the operational difficulties of achieving the objectives of the newly set up Monetary Policy Committee (MPC).[115] Essentially, the growth of deregulated and liberalised financial markets kindled by monetary policies has seen the hegemony of capital in an era of targeting macroeconomic variables. The supply of credit to the household sector and, more importantly, to the UK economy is a representation of the effect of the reforms introduced in the mid-seventies to combat the declining rate of profitability in the United Kingdom.

[115] The newly independent Bank of England had oversight functions over the banks and delegated responsibility of monetary policy.

Figure 26: Consolidation of the Banking Sector in the UK 1960–2010



Sources: Bankers Magazine, Collins (1988), published accounts and RBS Archives.

(a) The figure shows bank mergers involving the 16 London and Scottish clearing banks present in 1960, together with their acquisitions of building societies and demutualised building societies.
(b) The balance sheets of institutions are included from the point of merging or acquisition.
(c) Clydesdale was owned by Midland Bank until 1987 when it was sold to National Australia Bank.

Source: Adapted from Bankers Magazine, Collins (1988), published accounts and RBS Archives.

Amongst other reforms in this epoch, the changes in the regulatory structure via the deregulation and liberalisation policies of the 1970s, opened up the economy and the credit market, transforming the UK Banking sector. The internationalisation of capital and changes to the international monetary system encouraged the movement of capital seamlessly across global markets and ensured the supply of credit to households, firms and enterprises at all levels.

Conclusively, this chapter provided a summary of household debt in the post-Fordist neo-liberal era and summed up the demand and supply side explanations on the increasing household debt in the United Kingdom. It espouses the various monetary policies embarked upon by the Bank of England and the justification of demand for household debts during this post-Fordist era. The next chapter will investigate the increasing hegemony of financial markets, financialisation of the household sector and everyday life in a contemporary manner in the United Kingdom.

CHAPTER FIVE: HOUSEHOLD DEBT, FINANCIALISATION AND ECONOMIC GROWTH IN THE UK

5.0 Introduction

This chapter provides an in-depth analysis of the neoliberal arrangement and the transition from a core-regulated economy to a deregulated financial system. It examines the impact of neoliberal policies of deregulation and liberalisation of the financial system and the influences of financialisation[116] on the household sector using a political economy approach. Essentially, this chapter will review the distinct features of neoliberalism in the United Kingdom and its influence in the global financial market during this epoch.

This chapter is structured as follows; section 5.1 discusses the arguments that led to the development of neoliberal free market economics in the United Kingdom and its role in engendering financial dominance and hegemony in the global financial system.

To this end, the chapter examines the contradictions associated with each economic system and discusses the unequal relationship between labour and capital that has led to the hegemony of finance and increase in household debt in the United Kingdom.

The subsequent sections discuss the dominance of finance and the major impediments to capital accumulation and profitability in the United Kingdom. Specifically, it discusses the role that financialisation has played in the growth of household debt as the financial system dominates the real sector in the United Kingdom.

Fundamentally, it examines the transformative impact of financialization by financial institutions; the deregulation of labour markets and rise in zero-hours contracts; and the resilience of the financial sector in the UK. This has led to the passive relegation of the state in its role in the provision of welfare policies and deepened the unequal relationship between capital and labour.

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[116] Financialisation according to Lapavitsas (2014) under the Marxist political economy, describes the production, circulation, and distribution—in aggregate the accumulation process of surplus value or profit. It reflects a rapidly increasing asymmetry between production and circulation in the realm of productive activity with rapid exploitation of labour power and trading of loanable funds.

Essentially, it outlines the rapidity in transformation of mature capitalist economies not only cuts across economic processes resulting in increased high profit, but it also reveals social transformation with finance capital permeating the realm of all economic activity and financial markets.

On the other hand, the high profits in the financial markets have been buoyed by the non-performance of productivity in the real sector with low economic growth, high rate of unemployment and low real wages which has impinged on the overall economic activity in these mature economies.

Overall, this has led to a more divisive society as households with stagnant wage structure amidst increases in standard of living has resorted to using debt to satisfy their consumption expenditures. The implication of this has been the increase in income inequality in the United Kingdom.

Section 5.3 examines the role of housing price inflation in the process of neoliberal financialisation that led to the unsustainable growth of household debt along with other factors that capitalists continue to employ in extracting economic rent from households in the UK.

Specifically, this section outlines the housing market as an essential stabiliser of advanced capitalist economies such as the United Kingdom and provides the platform for the expansion of household debt. In addition, it provides an analysis of the rapid inflation of housing asset prices and explains how this dynamic has transformed the domestic market for consumer goods in the UK.

In summary, this section espouses the origin, features and transformational roles that financialisaton has played in the United Kingdom. The chapter contributes to the literature by examining the financialisaton of household income, and the dynamism that household debt has played in penetrating the everyday lives of workers in the UK.

5.1 The Neoliberal Channel to Capital Accumulation

5.1.1 The Falling Rate of Profitability in the United Kingdom

Primarily, the study analyses the dynamism of household debt as an important role in the declining rate of profitability, with origins in the declining global dominance of the British industry in 1880s; the post-World War 1 period between 1914-1922; profitability crisis of 1954-75; and the decimation of British manufacturing sector in the United Kingdom.

Thus, the rise of household debt can be described as a function of the dominance of finance, and the decline in productivity levels that has led to the unresolved crisis of over-accumulation and the incessant fall in the rate of profitability. The last fifty years has witnessed the increased dominance of finance, supported by the increasing permeation of economic activity by the financial sector at the expense of low growth in the real sector.

Thus, the financial services sector became the "oyster" on which profitability traversed the landscape of capitalist production, with adverse impact on the resilience of the British economy as the rate of profit continued its decline.

Brenner argued that between 1975 and 1997, there was a high wave of decline in profitability[117] falling from the 50 percent threshold to about 20 percent in the UK. By 1998, shortly after the exchange rate crisis, the rate of profit fell to 15 percent and dipped further to about 11 percent in the United Kingdom. The advanced capitalist economies, especially the United Kingdom saw further declines up to about 5 percent as the global financial crisis hit the British economy in 2007 (Brenner, 2006 pp. 20-23).

Historically, the United Kingdom's rate of profitability fell sharply than any other advanced capitalist economies in the mid-60s as a result of the increased competition between Japan and Germany and the departure from the Keynesian demand management.

The liberalisation and deregulation of the financial markets stimulated the entry of foreign banks and initiated the growth of the UK financial sector into becoming a global financial centre. In concert with this was the dominant role of British capitalism in heralding its role as a financial superpower and player in global financial markets.

Thus, the declining rate of profitability in mature capitalism was characterised by the deep-seated transformation within the capitalist accumulation process and the institutional forces that have shaped its trajectory in advanced capitalist economies like the United Kingdom.

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[117] Based on the approach of Michael Roberts.

Lapavitsas reiterated the tendencies of contemporary capitalism in three key areas namely: (i) non-financial enterprises becoming increasingly involved in financial processes and financial markets; (ii) the transformation of banks to leave their traditional lending and borrowing role to active trading on financial markets and household income as a source of profit, and lastly, (iii) the reliance by households and individuals on the formal financial system for their every-day lifestyle (Lapavitsas 2014, p.73).

This thesis argues that the rate at which households continue to be integrated into the formal financial system by banking institutions has led to the unsustainable rise of household debt in advanced capitalist economies like the United Kingdom. The quest by these financial institutions to sustain a high profit rate has seen the emergence of increased access to loans and the expectation on the future income of these households to pay off the debt obligations.

Financial institutions continue to exploit the workers in an era of stagnant wages as they imposed their dominance in financial markets by giving households increased access to loans and credit facilities at low interest rates. This phenomenon has led households resorting to credit facilities from financial intermediaries and institutions to augment their consumption expenditures.

Mainly, the collapse of the Bretton Woods System and its peculiar features triggered the dynamism that has enveloped the global financial system, leading to finance hegemony in advanced capitalist economies such as the United Kingdom. The dynamism of finance and its transformative power in these economies was linked to the shift from traditional role of finance intermediation to expropriating rent from household’s income.

Thus, the ascendancy of finance and the concomitant financialisation of capitalism became the platform on which capitalists continued to extract profit to guarantee shareholders returns in advanced capitalist economies like the United Kingdom.

Lapavitsas (2014) argues that the realm of finance and financial markets became the platform on which a “*perpetuum mobile* of profit-making” transforms and alters the behaviour or conduct of agents of capital accumulation. This transformation of finance and its predatory influences in the mature stage of capitalism transforms the sphere of capital accumulation and helps to expropriate profit in these economies.

To this end, it has thus been argued that the expansion of finance in advanced high-income economies was established on the provision of credit facilities to vulnerable households. These households continued to use credit cards to supplement their low wages and meeting their daily financial obligations irrespective of the conditions imposed by financial intermediaries.[118]

Keynes argue that the aggregate supply of finance available in an economy for investment, is determined not by savers' preferences but by the financial institution's willingness to create deposits and credits for borrowers. That is, banking institutions hold a dominant position in accelerating the rate of productivity in any economy, so long as finance becomes a revolving fund of credit useful for expansion and increasing the demand for money (Keynes 1937, p.665).

To this end, the deregulation and liberalisation policies of advanced capitalist economies empowered financial intermediaries' activities and helped to increase household access to financial markets. Baccaro and Pontusson argue that the relaxation of capital mobility in global financial systems favour the balance of payments system and eases the restrictions placed on debt-induced consumption in that period (Baccaro and Pontusson 2016, p.188).

These changes in the world economy initiated the hegemony of finance through the creation of new forms of paper assets, bringing an end to the capital control regimes and the abolishment of fixed exchange rate system. This reinforced the hegemony of finance and amplified the financial system influence on the economy at the detriment of the real sector.

Thus, the composition of the features of the Bretton Woods System has not only led to significant changes in the operation of these economies but also influenced the significant changes to the composition of household wealth.[119]

To summarise, the dominance of finance has led to the growth in financial assets, this is evidenced by the share of capital income and the resultant declines in wage income in advanced high-income economies. This assertion is supported by the neoliberal arguments that national output only rises when financial markets are more resilient and effective in allocating the resources in the economy.

Conclusively, this section provided an insight into the behaviour of finance capital as against industrial capital that has pressured the manufacturing sector ability to generate profit in the United Kingdom. The next section will accentuate the role that the unresolved over-

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[118] See Stockhammer (2013); Stockhammer and Sotiropoulos (2014); Gambarotto and Solari (2015); Jäger, Horn and Becker (2016) to understand the role of household debt in various European countries and the perspectives of post-Kaleckian economists on this phenomenon.

[119] According to ONS, household wealth globally has evolved especially in the United Kingdom with a higher percentage of 40% in private pension wealth, 35% in property wealth and 14% in financial wealth and lastly 10% in physical wealth.

accumulation crisis of the 1970s played in triggering the decline in the rate of profitability in the United Kingdom.

5.1.2 The Proximate Impediments to Capital Accumulation in Britain

This section analyses the proximate impediments to the capital accumulation process in the real sector, following from the dynamism of financial institutions that has seen the rise of the household share of debt as a proportion of the GDP to USD1.74trillion[120] in the United Kingdom.

However, the post-Bretton Woods' era did initiate some of the processes that led to the hegemony of finance through the explosion of credit facilities and reliance on these credit facilities by households in the UK. The inability of capitalists to earn commensurate profit levels from the real sector undermined profitability and led banking institutions to extract financial profit from households' future wages. Lapavitsas reiterated that financial expropriation[121] is a process whereby financial institutions, especially banks, extract profits from workers through the continuous supply of credit facilities at low interest rates (Lapavitsas 2009, p.27).

In addition, Marx's argument in part three of Capital volume III was that: "The Law of the Tendential Fall in the Rate of Profit" guarantees cyclicality of market behaviours and ensures continuous growth in capital accumulation. This process invariably engenders low profitability in the economy leading to deep recession in the long run.

Marx (1981a), stated that rapid accumulation often leads to declining profit rate, especially in a period where capitalists exploit the available technological advances and innovation in areas where labour cost is reduced to the barest minimum. Marx ascribes the tendency[122] for the profit rate to fall as:

"*The course of the development of capitalist production and accumulation requires increasingly large-scale labour processes and hence increasingly large dimensions and increasingly large advances of capital for each individual establishment. The growing concentration of capitals (accompanied at the same time, though in a lesser degree, by a*

[120] Office of National Statistics.

[121] "Financial Expropriation" refers to the exploitative tendencies of capitalist to extract surplus value from labour in the production process in the first instance and much more importantly interpretation of Marx (1981a) secondary exploitation of small producers was no different from the future claim on wages by banks.

[122] Volume III of Capital, Marx (1981, pp. 325-6).

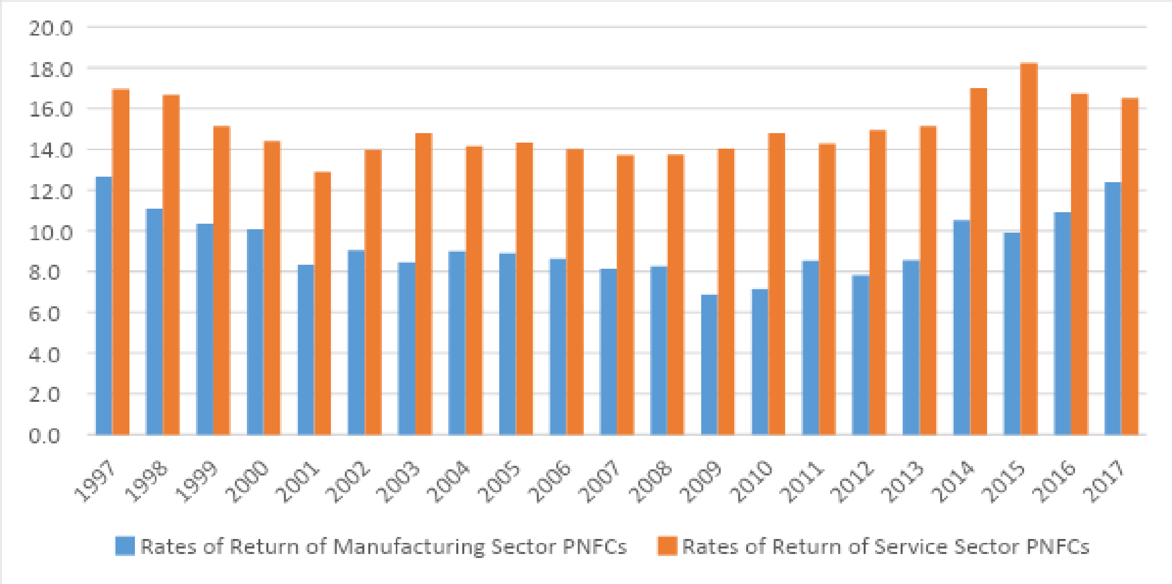
growing number of capitalists) is, therefore, both one of its material conditions and one of the results that it itself produces. Hand in hand with this, in a relationship of reciprocity, goes progressive expropriation of the more or less immediate producers. In this way a situation comes about in which the individual capitalist has command of increasingly large armies of workers (no matter how much the variable capital may fall in relation to the constant capital), so that the mass of surplus-value and hence profit which they appropriate grows, along with and despite the fall in the rate of profit. The reasons that concentrate massive armies of workers under the command of individual capitalists are precisely the same reasons as also swell the amount of fixed capital employed, as well as the raw and ancillary materials, in a growing proportion as compared with the mass of living labour applied."

Marxian economists such as Weisskopf (1979) and Glyn and Sutcliffe (1972) argue that the motivation for the decline of the rate of profit is the wage-push profit squeeze which results in an increase in workers' wages and low profit for capitalists. As shown in figure 5.1, rate of profit in manufacturing sector has remained at low levels due to the slow growth and stagnation in the economy in contrast to the high rates experienced by financial services sector in the UK.

Additionally, other macroeconomic variables that accounted for the declining rate of profit was the level of inflation and interest rates in the economy. These two macroeconomic variables also reduced the profit rate that accrued to the capitalist after accounting for the cost of production in the economy. The high rate of interest and inflation during the Bretton Woods era, ensured that there was slow economic growth; impinged on the capital accumulation process and prolonged the stagflation crisis of the 1970s.

The increase in the long-term and short-term interest rates, unfortunately made production firms struggle with weak growth and insufficient investments opportunities for capitalists to earn commensurate profits from in the capital accumulation process.

Figure 27: Comparison of the manufacturing &service sector profit rates (1997–2017)



Source:https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/datasets/profitabilityofukcompaniesreferencetable

Marx (1867) described the capital accumulation process as that in which the productive labour of workers is determined during the production process and wherein capitalists substitute the labour power for wages. Labour wage is typically lower than the value used up in the production process for which the capitalists enjoy surplus value[123] generated in the business enterprise.

Essentially, Marx proposes that the most significant way a country develops its capitalist processes was through the influx of capital to its most productive places. This intensifies competition between the production centres and invariably leads to a general fall in profitability. To this end, the low rate of profit in the United Kingdom was driven by continued competition between various advanced capitalist economies and the need to resolve the profitability challenges in the real sector.

Additionally, the level of debt by households continued to rise as a result of the impact of the post-Bretton Woods era and the dismal performance of the real sector in sustaining the profit rate in the United Kingdom. The level of public debt; soaring rate of inflation and the

[123] Surplus Value is the value generated by the capitalist during the production process which is higher than the money wage paid to the workers in return for the labour expended in the production process.

accompanying persistent increase in the global oil price exacerbated the impact of low profitability in major advanced capitalist economies such as the United Kingdom.

Keynes argue that as investment ebbs and flows, the level of economic activity and aggregate output rises and falls in line with the investments level which in turn determines the profit level in the economy (Keynes 1937, p. 668).

Additionally, Marx supported the above with his law of the tendency for profit to fall, he asserted that capitalists are always motivated to accumulate and increase surplus value in the production process. He argued that this is achieved by reducing wages and shifting the manual processes to machinery technologically innovative processes.

In the United Kingdom, the changes and policy shift away from Keynesian demand management left an indelible impact on household income and their ability to meet their financial obligations with their wages. As employment falls, the tendency for the profit in the economy to stall and stagnate increases with no wages to spend and the labour share of output will continue to fall in line with the capital accumulation process in place in the economy.

Importantly, the underlying problems of profitability can be described as a problem of weak demand spurred by a decrease in wage-led demand and a fall in the employment of the working class. The shift away from Keynesian demand management also triggered a fall in profitability as public enterprises were privatised in the United Kingdom.

In addition, the inability of capitalists to generate a sustainable rate of profit was due to the impact of price and wage control that was enforced in some advanced capitalist economies, especially in the United Kingdom. Price controls not only inhibited the growth of profit rate, but also increased the restrictions on oil prices, instigated a low level of capital and triggered a fall in economic profits.

In summary, based on the above analysis, it can be reasonably concluded that the unresolved over-accumulation crisis of the 1970s was an important factor that triggered the decline in the rate of profit in the United Kingdom. Additionally, the inability of British capitalists to compete favourably in the international market decreased productivity and reduced the capital stock in the economy.

The declines in the real sector implied that profitability was low in the UK and the continued intensification of inter-capitalist competition between Japan, Germany and other Anglo-Saxon economies put pressure on profitability in the United Kingdom. All of the above engineered the slump in labour productivity and resulted in low wages and stunted aggregate demand in these economies.

5.2 Financialisation and Economic Growth

5.2.1 Growth of Household Debt via Financialisation in the United Kingdom

In the last half-century, firms, government, and households have become increasingly concerned with the unsustainable growth of household debt in advanced capitalist economies such as the United Kingdom. The core features of these economies were the easy access to the financial markets by households, hegemonic nature of finance, and lastly, the ability to maintain their profit rates. The expansion of finance and the financial sector was fuelled by the changing regulations and easy availability of credit in advanced capitalist economies.

Levine et al posit that the expansion of finance[124] and the growth in household borrowing as a percentage of gross domestic product continue to serve as a pointer to the unsustainable level of household debt in the economy (Levine et al 2016, p.91).

Essentially, the fluid nature of global capital markets through the influences of globalisation and deregulation opened the households to both domestic and foreign markets as the financial instruments were traded in these markets. Thus, there was an increase in economic boom during the era as households were able to purchase goods with their high wages.

A recurring feature is the seminal work of Barba and Pivetti (2009); McDonough et al (2010); Barba and de Vivo (2012) wherein they argued that the rapid development of the financial sector and the innovative financial products became the platform on which credit facilities blossomed in advanced capitalist economies.

Household debt in the United Kingdom is a function of economic, socio-political, and institutional factors. These institutional factors were initiated by monetary policies and responses to the economic challenges of each epoch.

Importantly, Magdoff and Foster (2014) posit that the increasing tendency for capitalist to undergo periods of stagnation and increased declines in the economy became platforms for the capitalist system to fail during economic boom and fall during sustained trough periods.

Jarsulic argue that the tendency for capitalist system to be unstable reflects its natural state. The ideals of liberalisation and deregulation policies only provided temporal succour by providing capital mobility and increased access to markets. Thus, it is imperative to note that even though the features of this policies expanded aggregate output initially, it also served as a platform for the unsustainable level of household debt (Jarsulic 2013, p.21).

[124] See Levine's (1997) views on the positive impact that an expanding financial sector has had on the growth of an economy.

Crotty posit that the role of finance in the economy has undergone different transformation with financial intermediaries dominating all areas of the economy and continued to provide households with the necessary short-term financing. He also posits that households continue to spend money from the growth of their financial assets rather than from income earned over time (Crotty 2005, p.89).

Essentially, the economic growth seen in the economy, was an indication of the growth of secured and unsecured credit facilities extended to the household sectors irrespective of their wage levels by financial intermediaries. The notion by classical economists that low interest rate was responsible for the unsustainable growth of household debts as rational maximising agents in the economy.

It can thus be inferred that the deregulation processes that have led to financial expansion and hegemony as a response to the stagflation crisis of the previous epochs also counterbalanced the relative economy decline in the real economy.

Fouskas and Gökay (2012) argue that the financial environment built from the deregulation and liberalisation policies of the eighties provided a platform on which hegemony of finance was institutionalised with the household sector at the crux of the matter. It is to this end, that it was concluded that the present-day dominance of finance is symptomatic of the dynamism in the neoliberal discourse that has changed the course of financial markets, households, and government.

Additionally, the influence of financialisation over economies was not just over the real economy but also include the dynamism of household income and instituted inequality in advanced capitalist economies. They all argue that the dominance of finance instigated divisions within households and increased inequality in the economy (Lapavitsas, 2013b; Mason and Jayadev, 2014).

In summary, the recent global credit crunch was due to series of events that led to the culmination of financial pressures on households seeking debt platforms to satisfy their consumption expenditures. Cynamon and Fazzari (2013; 2016) assert that the declines in real household spending since the 1980s has been on the increase since the advent of neoliberalism with undue pressure on household's standard of living amidst struggling to augment their stagnant wages.

5.2.2 Borrowing Levels, Output and Economic Growth in The United Kingdom

The rise of household debt and household borrowing levels in the United Kingdom since the collapse of the Bretton Woods System has been linked to the ascendancy of finance in mature capitalist economies such as the United Kingdom. The rise of finance is evidenced by the transformation in banking relationships among non-financial enterprises, financial enterprises and, most importantly, the household sector.

The transformation of capitalist economies such as the United Kingdom was reflected in the mode of accumulation and realisation of profit by financial systems rather than through trade in the United Kingdom. The Bretton Woods period saw the extraordinary increase in the influence of the financial system in the United Kingdom which led to changes in the social fabric of households and borrowing levels in the economy.

In previous chapters, the impact of financialisation on the United Kingdom was evaluated, and its effect in magnifying inequality were deeply reflected in the rising levels of borrowing amongst households in the United Kingdom. As households continue to be entrenched in the formal financial systems, financial institutions continue to extract profits from vulnerable households via access to credits.

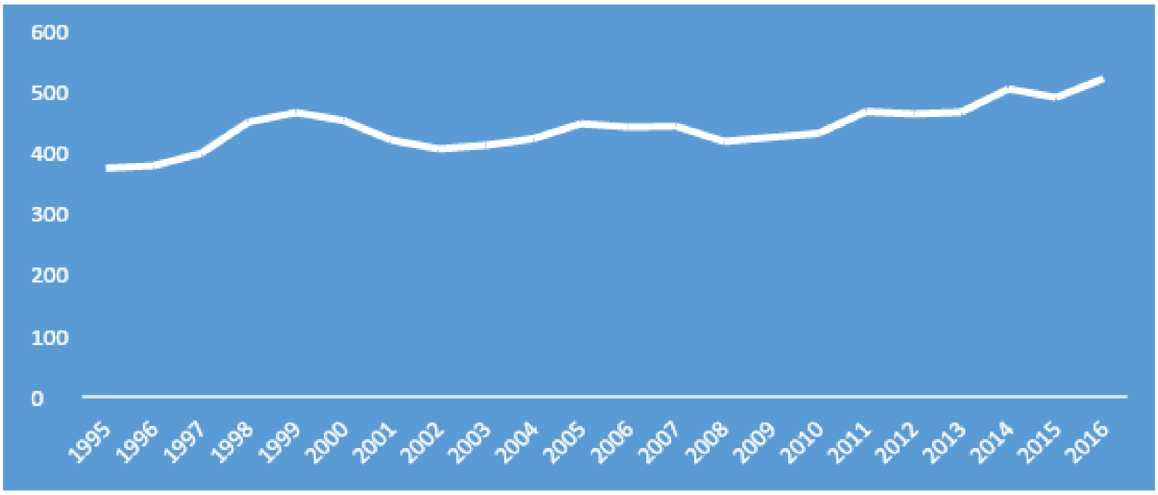
Lapavitsas and Powell asserted that the pattern of financialisation in advanced capitalist economies like the United Kingdom, revolved around the financial system becoming an "autonomous sphere" for capital accumulation, with agents expropriating value and profit through financial channels. In the United Kingdom, the shift away from welfare schemes that support the citizenry, privatisation of public enterprises, represented the framework in which institutional and political will emboldened the capital accumulation process (Lapavitsas and Powell 2013, p.366).

Marshall (2013) argue that the increasing dominance of financial motives, systems and operations in the search for profits in the United Kingdom was shaped by the topical influence of the City of London and the London Stock Exchange in attracting foreign capital to the economy.

Importantly, the growth of household borrowing at the expense of an increase in household income continues to raise concerns for the financial resilience of the United Kingdom. The prevalence of credit platforms after the financial liberalisation and deregulation of the post-Bretton Woods period opened credit facilities to the household sector at low interest rates.

To this end, as household debt to income ratio[125] rises, a marked difference in the ability of households to account for their expenditures with wages in the United Kingdom becomes more challenging. Figure 5.2 below shows that there has been a constant increase in the net worth of households in the United Kingdom despite the increased use of debt to meet day-to-day financial obligations. It rose from 378.29 percent in 1995 to 447 percent in 2005 before falling back to 430 percent in the post-global financial crisis period in 2010.

Figure 28: Household net worth as Total, % of net disposable income, UK (1995 – 2017)



Source: OECD (2018), Household net worth (indicator). doi: 10.1787/2cc2469a-en (accessed on 04 October 2018)

In conclusion, the unprecedented rise in household borrowing in the last few decades were stimulated by increased access to credit, low-interest rates and the end of Fordist high wages in the United Kingdom. Thus, the impact of household borrowing has important macroeconomic implications for the financial stability of the United Kingdom. The banking institutions were unable to maintain the profit rate in the post-war period, coupled by the incessant declines in industrialisation which meant that British households couldn't have access to the requisite help in welfare state.

[125] OECD (2018), Household net worth (indicator). doi: 10.1787/2cc2469a-en (accessed on 23 June 2018).

5.2.3 Interest Rate Policy and Output in the United Kingdom

In the United Kingdom, the changes to capital accumulation process and the continual exploitation of workers in the appropriation of surplus value led to challenges in the management of interest rates. The transformation in banking operations and social relations also led to increased use of credit facilities in satisfying their daily financial obligations.

Additionally, the low-interest rate policy in the United Kingdom, saw the increase in household debt to unsustainable levels, greatly influenced by the sharp increase in demand for credit cards.

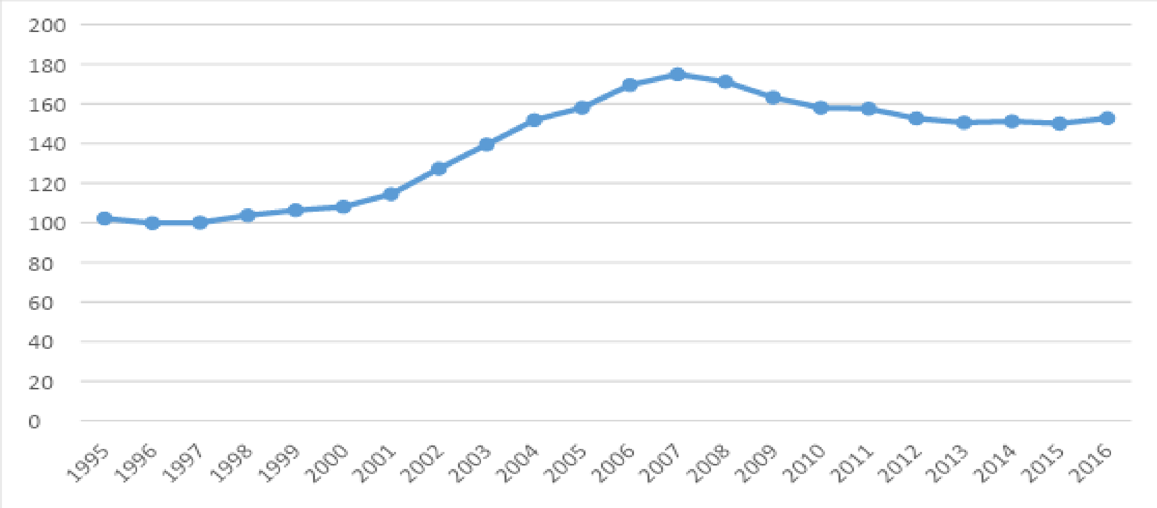
Shaikh (2011) argue that the rise of consumer borrowing was spurred on by the easy access to debt, rise in the exploitation of labour, stagnant wages and low productivity which helped to sustain the profit rates in advanced capitalist economies. To this end, the stagnation of wages and massive declines in productivity saw an increase in aggregate demand and supply of credit cards from banking institutions to households at low-interest rates.

Essentially, the suppression of wages itself was part of the bigger picture of raising the rate of profit and economic boom. As the household sector continues to borrow to augment its consumption expenditures, the profit rate continues to soar, and the real wage declines further boosting the profit rate.

In the United Kingdom, the fall profitability was arrested by the suspension of a slowdown in real wages and low interest rates which triggered economic boom in the first instance and drove the capital accumulation process in the last instance. Keynes reiterated that "the engine that drives Enterprise is……Profit". On the other hand, Marx asserted that the rate of profit remains the difference between interest rate and rate of return and the profit drives investment and capital accumulation in an economy.

Shaikh (2011) argues that in advanced capitalist economies such as the United States and the United Kingdom, the profit rate was helped by the continued suppression of the labour market and the impinges on real wages. Lastly, the era of low-interest rates also helped to instigate the culture of borrowing amongst households in the UK.

Figure 29: Household Debt-Income in the United Kingdom (1995 – 2016)



Source: OECD (2018), Household debt (indicator). doi: 10.1787/f03b6469-en (accessed on 03 August 2018)

5.2.4 Exchange Rate Crises, Collapse of National Currencies and Financial Crises

The transformation of mature capitalism in advanced capitalist economies have gone through many changes in the last half-century to evolve into a different form and shape. These structural changes were put in place to combat the collapse of Bretton Woods System and move towards price stability (inflation rate targeting). In a period characterised by the liberalisation of finance, free movement of finance and collapse of the fixed exchange rates, a system of mass consumption and mass production became paramount in advanced capitalist economies.

Duménil and Lévy (2005) asserted that the hegemony of finance resulted in an unequal relationship between labour and capital, wherein the dominance of finance shifted focus away from workers resorting to augment their wages with credit cards.

The resulting paradox was that capitalists, in a bid to increase their share of profits from lending activity, appropriated large dividends from the real sector to the detriment of the working class. Additionally, this led to increased inequality as households struggle to meet their daily financial obligations in an era of deregulated and liberalised financial system. The unequal relationship explained above, resulted in higher profit rates for capitalists as household became increasingly financialised.

Stockhammer (2013) contends that financialisation gave rise to the ascendancy of credit-finance consumption as a function of the deep-seated structural problems of aggregate demand, wage suppression and exchange rate volatility.

Thus, the inability of the United Kingdom to resolve the structural problems of overaccumulation evidenced by the insufficient aggregate demand and low wages in Britain, led households to resort to employing credit cards in supplementing their wages.

Kindleberger and Aliber (2005) argue that since the collapse of the Bretton Woods System, the impact and severity of financial crises has undergone massive changes resulting in devaluation of national currencies and depression in the economic outlook of advanced capitalist economies. Moreover, the frequency of exchange rate crises in different countries meant that a rapid flow of capital from one country to another resulted in trade imbalances, exchange rates fluctuations and financial instability in these countries.

Kindleberger and Aliber (2005) submitted that the British pound and the Italian Lira in 1992 were devalued during the period of Bank Independence, against the German Mark. The resulting "overshooting" and "undershooting" of these national currencies[126] were due to the changes in the market exchange rates and inflation rates in these countries.

Kindleberger and Aliber (2005) articulated the impact of exchange rates shocks on the economy and the resulting crisis that emanates from the inadequacies of international credit market and foreign exchange rates markets.

Globally, several exchange rate crises have occurred in the last half-century, with varying lengths and different triggers points in the domestic markets. A cross section of these crises from the Mexican exchange rate crisis in 1982, to the British pound and Italian Lira in 1992, and the Asian currencies crises in 1997. They all had different trigger points and severity on their respective domestic economies.

The spate of currency crises in post-Bretton woods era reveals the cross pegging of exchange rates in the European Monetary system[127] and the resulting increment in fluctuations margin of currencies in Europe. The underlying challenge of this expansive framework reveals the availability of foreign exchange reserves and the impact of liberalised financial system which encouraged capital flow between these countries.

In Britain, the adoption of restrictive monetary policies ensured that free float and growth targets were achieved in the short term and in the long term, a more balanced budget was achieved through fiscal responsibility and reduction in inflation rates from 18 per cent to about 5 per cent between 1980 and 1983.

By 1990, the policy stance of the United Kingdom not to adopt the European Exchange Rate Mechanism (ERM) framework had significantly changed with the positive features of deregulation of the financial systems and markets, single market, capital mobility and inflation convergence between member countries.

In contrast, the pressure in the foreign exchange market instigated deep concerns on the suitability of a centralised monetary union, bleak parity between currencies, and inadvertently led to the intervention of Italy and the United Kingdom who felt pressured to intervene in the

[126] According to Kindleberger and Aliber (2005) the twin phenomenon of overshooting and undershooting is represented by the sudden withdrawal of cross border movement of funds in one or more countries. Overshooting occurs when a country's currency at its current market price appreciates relative to its usual long-term equilibrium value which will result in a deflationary trend on the country's tradable goods sector. Undershooting on the other hand implies that a country's currency at its market price depreciates relative to its long run equilibrium value which in turn instigates inflation rate with secondary influences on the runs on bank failures and collapse of businesses.

[127] This system included countries such as Belgium, Denmark, Germany, France, Luxembourg, Ireland, Netherlands and Italy. Spain, Portugal, United Kingdom joined between 1990 and 1992. The Italian Lira was switched from +6 or -6 percent fluctuations margin with the central rate devalued pursuant to the current market rate of 2.25 percent in 1990.

foreign exchange market. Unfortunately, this singular event orchestrated the eventual devaluation of the Italian Lira and the negotiated exit of the British pound from the ERM.

Moreover, the cross-border movement of massive flows of capital became more prevalent, with rapid development of financial products which helped in expanding the foreign exchange rate markets and provided stability in the economy.

In addition, the Bank of England overcommitted on the deliverance of US dollar in the market, and this triggered a negative net flow in the capital flows, leading to the eventual devaluation of the British pound in 1967 (Kindleberger and Aliber, 2005).

In sum, the growth of household debt in the United Kingdom can be described as a function of a multiplicity of various factors; namely, increases in the movement of foreign exchange, accumulated savings or reserves, and low interest rates.

5.3 The Neoliberal Financialisation of Housing Markets

5.3.1 Housing Markets Dynamics in the growth of Household Debt

The section examines the role of housing price inflation in the era of neoliberal financialisation that has seen the upward trajectory of household debt in the UK. It outlines the various factors that has supported capitalists in absorbing surplus capital as the housing market became transformed from playing the role of habitation to the realm of surplus value.

The financialisation of the housing market remains a topical and core feature of the financialisation literature in which the dominance of finance, financial markets and institutions continue to hold sway compared to the Keynesian embedded demand management that delivered the golden age of capitalism.

Essentially, the collapse of Bretton Woods system and the subsequent adoption of neoliberal policies of deregulation and liberalisation of financial markets provided the platform for the rapid inflation of housing asset prices and household debt in the advanced capitalist economies.

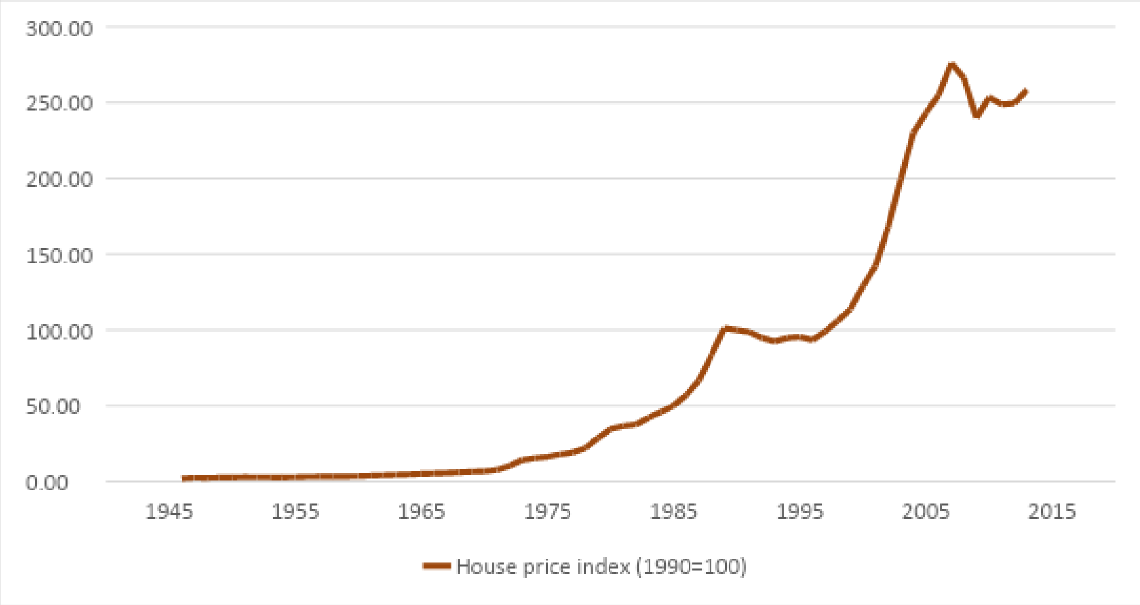
The neoliberal policies not only transformed the financial markets but also became a primary stabiliser of the economy and an active portion of the expansion of household debt in these economies. The financialisation of the economy and by extension the household sector saw the credit market fully unleashed and liberalised from the fetters of the exchange rate system in advanced capitalist economies such as the United Kingdom.

Accordingly, the United Nations (2017) report describes financialisation of the housing markets, as the … "*structural changes in housing and financial markets and global investment whereby the housing is treated as a commodity, a means of accumulating wealth and often as security for financial instruments traded and sold on global markets*".

Contrastingly, under Keynesianism, the active involvement of the state in the provision of housing and welfare system helped to increased national output during that period. It is imperative to state that the growth rate of the British economy during this era remains unmatched even to this day.

Aalbers (2016) argue that the dynamism in the growth of housing markets between these two periods and its centrality in the international political economy remains a topical issue in the study of financialisation. This is evidenced by the graph below, wherein, the annual price index hovered between 2 to 7, but since the advent of neoliberal globalisation, the index rose to 276 in 2007 and has remained within this threshold till date.

Figure 30: Index of House Prices in the United Kingdom (1945 – 2014)



Source: BOE-ONS Three Centuries of Data; DataID A32.

Harvey (2018) in his book "*Limits to Capital*" argue on the role that neoliberal globalisation had on the economy as a response to the structural crisis of over-accumulation in the 1970s, departing from the embedded Keynesianism that previously delivered strong growth during this period.

Harvey (2018) argued that crises occur when there is a tendency towards overaccumulation such that surplus value accumulated by capitalists fail to find the suitable platform to absorb the surplus value. In particular, he described the different phases in which the devaluation and destruction of surpluses tend to move towards crisis either through a glut of commodities; financial or monetary crisis; surpluses of productive capacity and lastly, speculative bubbles in the property market.

Additionally, he argues that this period of neoliberal globalisation was an attempt by the Anglo-Saxon economies under Reagan-Thatcher to restore the falling rate of profit and surplus capital as a result of the inability to generate commensurate profit rates from the usual platform of real sector productivity.

Mainly, the housing sector in the United Kingdom during the Fordist era was predominantly financed by the state, especially subsidised rental housing schemes in which the working class with its high productivity, high wages and an integrated welfare system was able to achieve strong growth in all areas of the economy.

Aalbers argue that the housing sector has since been transformed (post-Fordist era) since the advent of the neoliberal globalisation/financialisation policy which dismantled all state apparatuses in the economy under the guise of free markets economics. This invariably provided the platform for financial institutions to be fully integrated into the housing market via securitisation, housing assets and provision of mortgages (Aalbers 2008, p.150).

Murie *et al*.(2005) argue that various housing scheme were offered to the British public either through the Margaret Thatcher's "Right to Buy" or through other means which ensured that the transformation of subsidised council properties to privatised housing system was at its peak.

Aalbers (2008) reiterated that the neoliberal policy of this era made social housing in many OECD countries privatised, coupled with austerity and cuts to welfare state provisioning. The consequences of these neoliberal policies were the increasing dependence on the financial markets to provide housing whilst social housing became non-existent.

In the era of financialisation, the rise of the housing sector as an asset has seen the rise of real estate to unprecedented heights in the United Kingdom. Between 1940 and 1970s, housing sector assets in the Eurozone grew nominally from 3.7 trillion euros in 1980 to 13.2 trillion euros in 1999 and reached 24.2 trillion euros in 2006 (ECB, 2006 and BIS, 2009).

Jorda et al. (2014) posit that between 1970 and 2010, private debt to GDP ratios hovered between 50-60 percent and with the neoliberal policy of financialisation, the household sector became exposed to the credit markets. A significant component of the private debt to GDP is the proliferation of mortgage debt which grew from a meagre rate of about 20 in 1960 to 60 per cent by 2010.

Lapavitsas and Powell (2013) argue that the continued dominance of the financial markets, has seen the increasing movement of funds from productive sectors to financial markets, real estate and household debt especially especially in their search for commensurate profit level. (Lapavsitsas and Powell 2013:371). The increase in contribution to GDP as a function of finance, insurance, real estate (FIRE), continues to grow in leaps and bounds as real estate investment trusts, mortgage realtors, building and bank societies continue to dominate the housing sector and financialise the housing market[128]

On the other hand, Harvey (1978) asserts that the housing market plays the role of a "spatial-temporal fix" for an endemic state of overaccumulation in the housing market. Harvey

[128] (See also Aalbers, 2016; Wijburg and Aalbers, 2017a), Heeg (2013) and Fields and Uffer (2016; Uffer, 2014 and Fields (2015).

argues that capitalism and the urbanisation of cities in advanced capitalist economies are synonymous to financial re-engineering, as the financial markets continue to perpetually create a platform of surplus value that controls the pace of volatilities in the markets (Harvey 1978, p.104)

Harvey's argument on urbanisation was further extended to 'privatised Keynesianism' by Crouch (2009) and Watson (2010) as platforms upon which house price inflation has been used as a system of initiating economic growth and compensating for the fall in real income for the household sector in these economies.

Moreover, the financialisation of the housing sector became more pronounced with the increasing role of both financial markets and non-financial firms in the production of housing in European economies. Romainville argue that effect of financialisation has become pervasive in the housing sector such that the building of houses has now become financialised with both non-financial firms and financial firms actively involved in the sector to earn surplus value (Romainville 2017, p.637).

Aalbers contend that the financialisation of the housing sector is variegated and highly dependent on the structure of the country, especially in advanced capitalist economies such as the United Kingdom where the trend remains of prevalent financialisation of mortgage providers, landlords, households and the state. The underlying theme in the housing market is the increased urbanisation of advanced economies, especially the sharp house price inflation that has played an increasingly important role in the absorption of the surplus product by capitalists in the neoliberal era.

Underlying this process of capitalist development is how financial institutions have transformed the processes of demand and supply of mortgages; influenced by the neoliberal ideals of globalisation/financialisation that has seen the increased domination of financial motives and financial institutions in advanced capitalist economies like the United Kingdom.

Mainly, the financialisation of the housing market involves the ways by which parties settle their financial obligations; financial flows are transferred, and workers are enshrined in the absorption of surplus value (Harvey 1982, p.361).

To this end, the neoliberal forces not only helped to perpetuate the financialisation of the housing markets, but also provided a platform upon which mortgages were used to control the flow of surplus value. The housing market became a sphere of financial expropriation in which surplus value was extracted directly from household income (Lapavitsas 2009, p.114).

The expansion of housing market and homeownership in the 1990s was seen as a means of wealth creation, and a platform to fuel financial speculation and rapid expansion inflated prices of houses during this period. Inadvertently, this expanded the capital accumulation process and also facilitated the urbanisation of economies in the Anglo-Saxon economies (Fine 2010).

The financialisation of housing is embedded within the processes of the production of surplus value production in which the labour share of national income is subsumed, and the labour power is exploited via capital circulation, real estate speculation and the changing financial culture of the labour class during production. This is reflected in the ratio of mortgage debt to the gross domestic product between 1970 and 1990 and lastly in 2010 where the effect of mortgage speculation and housing financialisation was proposed to households as easy access to credit markets and house ownership.

The deregulation of the financial markets was also linked to the mortgage industry such that the volatilities in the financial markets and credit markets were directly related to the movements in interest rates, inflation rates and other macroeconomic variables that are correlated to the housing market.

The availability of free credits in the mortgage industry implied that individuals had access to the mortgage debt portfolios and their debt obligations became linked to the financialisation processes in these economies. Household debt repayments were linked directly to the volatilities in the financial markets and the movements in other macroeconomic variables in these economies.

To reiterate, the commodification of the housing market became a topical variable in the urban capital accumulation as it became a platform for financial speculation and investment portfolio stimulation[129]

Lastly, Harvey submits that the neoliberal agenda facilitated the process of trading housing instruments as financial assets to be traded with a subsequent increase in the number of households matching the available houses supplied in the advanced capitalist economies. In the United Kingdom, the government announced the "Help to Buy" scheme to alleviate the number of homeowners by increasing the number of demand and stimulate house supply in the United Kingdom.

[129] (see Aalbers (2008) Butler and Robson 2003; Fenton et al. 2013; Forrest and Williams 1984; Harvey 1978).

5.3.2 Financialisation of the Housing Market in the United Kingdom

In response to Robert Park,[130] Harvey argue that the right to the city is a form of social struggle in which citizens of the city, are willing to share their collective power for access to the city's resources and the processes of urbanisation in the city. The pace and shape of development in the housing market, has evolved since the end of the post war period helped by deregulated and liberalised financial markets.

Harvey explores the way urbanisation has changed the composition of surplus capital and control over its extraction by few capitalists in the economy. He argues that the concentration of surplus capital is inherent not only in financial market but also in the housing market.

Furthermore, he asserts that the perpetual search for surplus value under capitalist structures drive the processes of urbanisation with capitalists providing the funding necessary for the construction of houses in the economy. The provision of mortgages and urbanisation in the city allows the processes of capital accumulation to be realised through large investment in housing schemes and real estate portfolios.

Harvey posit that capitalist tendencies revolve around the processes of searching for profitable ventures where they can ensure that surplus product is produced and absorbed in the face of competition and liberalised financial market. Thus, the continual search by capitalists for commensurate profit level is often achieved as a result of voluntary unemployment by workers or demand for higher wages by labour unions.

To this end, capitalist resort to increasing their profit levels by using technology and other innovative processes to enjoy comparative advantage during production processes by reducing labour power and multiplying surplus value in the housing markets. Thus, as barriers to capital accumulation are erected, the state enforces new regulations of ruinous competition and monopolisation that ensures continuous flow of profit levels.

Moreover, in the housing markets, urbanisation plays an active role alongside military spending in absorbing the surplus product that capitalists perpetuate in the economy. The capitalists circumvent barriers to capital accumulation by investing in local areas through gentrification and bespoke housing arrangement that provides investment outlets to extract surplus value.

Harvey argues that crises theory (either profit squeezed; falling rate of profit; competitive struggles; or under-consumption) occur as a result of several macroeconomic

[130] Park, R., *On Social Control and Collective Behavior*, Chicago, Chicago University Press, p.3.

variables that focuses on solving specific challenges in the economy. Harvey assert that the Reagan-Thatcher confrontation with workers in the 1980s resulted in the rise of unsustainable levels of debt-led growth that has seen massive rise in the use of credit cards in advanced capitalist economies.

Lefebvre (2003) posited that the urban processes in advanced capitalist economies is crucial to the sustainability of capitalism and a locus point in class struggle on one hand, and the complete disintegration of government structures that has historically held the welfare system together in advanced capitalist economies.

Harvey argues that urbanisation played a dominant role in the neoliberal agenda such that the housing market not only became a hub for stabilising the economy but also an active platform for the eventual economic growth experienced in these economies. The Bank of England in 2016 argued that the housing market increased astronomically from 0.49 % in 1938 to 39% in 2003 in the United Kingdom (Bank of England, 2016).

Essentially, the real estate market absorbed a high level of surplus capital during this period as construction of housing increased in concert with house price inflation and easy access to low interest rates in advanced capitalist economies. In the United Kingdom, the boom in real estate underwent massive transformation during the Keynesian period compared to the neoliberal period of liberalised financial markets.

To this end, the housing market in the United Kingdom has undergone a surge in mortgage application and boom via the increased demand for credit cards as banking institutions seek for new outlets for profit maximisation. Specifically, urbanisation has been on the increase in the United Kingdom, due to neoliberal globalisation in 1970, and the impact of liberalised credit markets that has seen the rise of the May-led government's 'Help to Buy' scheme.

The integration of financial markets with its volatility and complex finance transactions has seen the rise of a new culture of financialisation as more flexible debt-financed house projects take priority at the expense of social housing.

Harvey posited that the level of urbanisation seen in advanced capitalist economies came as a result of the neoliberal arrangements that sustained the credit markets and helped financial institutions to structure mortgage transactions, securitisation documentations and collateralised debt obligations.

In contrast, the sub-prime mortgage sector in the United States and the United Kingdom exposed the housing market and the economy to the economic crises experienced in 2007. This invariably led to the increasing number of indebted households facing severe financial challenges that hindered them from meeting their financial obligations and threatened the financial resilience of these markets.

Moreover, Harvey defined urbanisation as a platform which results in class struggle and changes in the control and ownership of financial resources that displaces residents during the processes of surplus absorption. Harvey describes this process of displacement as “accumulation by dispossession” in which capitalist processes lies at the base of urbanisation activities with the absorption of surplus value.

In the United Kingdom, Harvey posit that the effects of Thatcher’s policy of privatisation of social housing and housing scheme are still being felt to the present day as urbanisation continues to play a central role in the absorption of surplus value through the displacement of the urban masses in urban centres and dispossession of the right to the city.

The neoliberal agenda of financial deregulation and liberalisation of the credit market not only privatised the housing market but also placed the financial markets at the helms of all macroeconomic policy with capital increasing at a constant rate while the housing market continue to be financed by household debt.

CHAPTER SIX: THESIS SUMMARY AND CONCLUSIONS

6.1 Summary, Conclusion and Analysis of Major Findings

In conclusion, this thesis investigated the dynamism of household debt in the United Kingdom with specific contributions to the literature on the financialisation of household income since the collapse of the Bretton Woods System to date. Specifically, it contributes to the literature by providing a distinct historical and theoretical perspective on the determinants and causes of household debt in the United Kingdom.

Firstly, the suppression of workers income in the production process through the erosion of Fordist high wages in the United Kingdom has seen the expansion of household debt. In addition, the diminishing opportunities for capitalist and banking intermediaries to earn comparable profit level from their intermediation role in the UK, has seen the integration of households into the formal financial system via easy access to credit.

Lastly, the amalgamation of these factors on the profitability level in the United Kingdom has led to the declining pace of capital accumulation and contributed to the growth of unemployment, inequality and lastly, financial instability.

The neoliberal social structure of accumulation was fundamental to the integration of households to the financial system and in particular to the financialisation of everyday life and the ascendancy of finance in the United Kingdom through easy access to finance and the international mobility of capital which replaced the high wages of the Fordist period. The neo-liberal policy of financial deregulation contributed significantly to the pace of capital accumulation and aggregate economic growth, especially since the fall of the Bretton Woods system

Fundamentally, the international mobility of capital in the United Kingdom was integral to the globalisation/financialisation of everyday life in the country as the shift towards this system changed not only the social dynamics of households but also transformed the savings and spending patterns of households in the country. This dynamism was spurred by the changing relationship between financial intermediaries to provide credit to British households which further highlights the unequal relationship between labour and capital.

The post-Bretton Woods system also instigated the increase in interest rates as the cost of capital increased with other macroeconomic variables such as the inflation rate in the United Kingdom.

The central bank of England, with its mandate and unilateral responsibility in managing financial stability in the United Kingdom, resorted to managing inflation as well as the interest rate in the economy. The independence of the apex bank not only helped to manage the economy but also increased the flow and cost of capital via capital account deregulation and liberalisation.

This thesis also outlines the high growth of flexible labour markets in the United Kingdom wherein a high number of working-class households are now engaged in zero-hours contracts that undermine the quality of life and lifestyle choices of households in the economy.

That is, the increased use of flexible labour markets and deregulated labour unions resulted in the suppression of working-class households in Britain. This was most evident in wage inequality experienced in the early 1980s with inter-capitalist competition and global technological pressures were at the highest in advanced capitalist economies. Additionally, international trade increased the demand for skilled workers amidst weakening labour structures and unionisation which saw an increase in welfare benefits in the economy.

In the United Kingdom, productivity has inadvertently fallen in real terms with a deep level of gross level of capital formation and labour productivity which in turn has led to a massive suppression of the labour markets. The inability of the working class to hold onto jobs has also contributed to the increasing use of household debt platforms to meet their consumption expenditure and aggregate demand.

Essentially, this research begins by investigating the dynamism of household debt by exploring the macroeconomic and socio-economic impact of household debt on economic growth in the United Kingdom. Additionally, the study evaluates the growth of household debt and the institutional environment that has facilitated its trajectory.

This thesis constructs a historical context of household debt and provides a conceptual framework of the social structure of accumulation and the institutional state apparatuses that have facilitated the growth and ascendancy of finance in the United Kingdom. The conceptual framework helps to ascertain the origins of the demand and supply of household debt and the financialisation of households' everyday lifestyle.

Chapters 1 and 2 of the thesis provides support to the theoretical framework and answer the research questions that the end of Fordist wages and the unresolved overaccumulation crisis have led households to resort to credit facilities to fund their daily consumption activities. The thesis outlines the various ways through which households in the United Kingdom have been exploited via class relations achieved by the systematic extraction of rent from stagnant household wages by speculators and capitalists.

Essentially, this thesis investigates the dominance of finance in advanced capitalist economies, specifically in the United Kingdom, and the avenues through which way this phenomenon have shifted the banking relationship from the traditional approach of lending for productive uses to lending to the household in an era of financialisation.

The arguments in Chapter 3 and 4 reflect the historical context in which various factors have undermined the rapid economic growth achieved in the golden age of capitalism in the United Kingdom. During the golden age, household wages were enough to satisfy all financial obligations in advanced capitalist economies. To this end, the thesis reveals that both the demand and supply-side determinants of household debt and the arrangement that has facilitated the growth of debt in the United Kingdom.

More importantly, the macroeconomic arrangement during the collapse of the Bretton Woods System became the platform upon which the dominance of finance rests on in advanced capitalist economies. This system facilitated the unequal relationship between capital and labour and intensified the ability of capitalist and speculators to extract rent from the household sector in the United Kingdom.

Thus, the arguments therein are that the expropriation of wages not only changes the dynamism of capitalism but also changes the way households respond to macroeconomic shocks in the economy. The consequences of these macroeconomic shocks were the astronomical number of crises in advanced capitalist economies. One of which was the 2007 global crisis which was as a result of the unsustainable rise of household debt and housing price inflation in the United States and the United Kingdom.

Chapter 5 covers the arguments on neoliberal influences on the rise of household debt and its import on economic growth in the United Kingdom. It specifically examines the financialisation of household income and the processes that has transformed the everyday working lives of British households. It examines this in a contemporary perspective to reveal the role of housing price inflation in the process of neoliberal financialisation and the rise of household debt to unsustainable levels in the United Kingdom.

Chapters 6 and 7 outlines the conclusion and the econometric analysis into the growth of household debt in the United Kingdom and the implication for the economic stability of the United Kingdom.

6.1.1 Main Empirical Findings

This thesis contributes to the study of household debt in an era of financialisation with a specific concentration on the underlying factors that have led to the unsustainable trajectory of household debt in the United Kingdom. The thesis main arguments are that households continue to resort to debt-led consumption due to the end of Fordist high wages and the declining rate of profitability in the United Kingdom.

That is, as the financial sector seeks to extract profit from households, British households have reached out to banking institutions and other credit brokers for credit facilities to meet their daily consumption expenditures. These households were buoyed by the low rate of interest which has spurred increased borrowing activity amongst these households.

Essentially, the increasing dominance of finance in the real sector and amongst British households has historically been remarkable since the collapse of the Bretton Woods System. This thesis introduces the historical context of the dynamism of household debt in the United Kingdom and summarises the extant literature before delving into the empirical analysis using the ARDL Bounds testing estimation technique. This technique was employed to investigate the impact of wages and rate of profit on the growth of household debt in the United Kingdom and its contribution to economic growth.

The study examined variables such as wages, interest rates, house prices and financial expansion amongst others that have historically led to the growth of household debt amongst British households between 1970 and 2015.

Empirically, the regressors in the model were exposed to various estimation techniques such as the Ordinary Least Squares in order to test and confirm the validity of the research hypothesis in Chapter 1. The autocorrelation and over-identification restrictions test reveal that the variables employed in the time series regression were efficient and all instruments remained valid in estimating the factors that have accounted for the growth of household debt in the long run in the United Kingdom.

In summary, the model concludes that the rise of household debt in the United Kingdom is a function of the end of Fordist high wages and the declining rate of profitability. The study corroborates other studies such as Lapavitsas (2013) and confirms the role that financialisation of household income has played in the rise of household debt and the reliance by household to augment their low wages via credit cards. The empirical result confirms that all the variables employed in the study contributed to the rise of hosehold debt in the United Kingdom.

6.2 Further Research Considerations

This thesis argues that the dynamism of household debt is as a result of the end of high Fordist wages and the unresolved crisis of over-accumulation that has led to the tendency for the rate of profit to decline in the United Kingdom. Banking institutions have created new ways of extracting economic rent and financial claims from the household sector through the supply of credit.

The central argument riveting through this thesis, is the increased dominance of financial institutions to supply credit facilities to households as a result of the liberalisation of the exchange rate system that placed the financial sector at the centre of both social and political spectrum in the United Kingdom.

In light of this new unequal relationship between capital and labour, the thesis envisages that, for future research, the discourse should be placed on a new socio-political approach that emphasises demand dynamics of household debt in advanced capitalist economies such as the United Kingdom.

PART THREE

EMPIRICAL ANALYSIS AND DISCUSSION

CHAPTER SEVEN: ECONOMETRIC ANALYSIS AND DISCUSSION OF RESULTS

7.0 Introduction

This chapter investigates the role of the financial system in expanding the credit system and stimulating aggregate demand by examining the role that increasing household debt play in advanced capitalist economies such as the United Kingdom.

On one hand, past studies on household debt allude to the pivotal role that the financial sector play in facilitating household access to funds, a consequence of which leads to the rising growth of household debt. In contrast, other studies argue that the growth of household debt is a requisite stimulant that facilitates aggregate demand and enhance the living standards in advanced capitalist economies.

Essentially, scholars[131] including Liu and Rosenberg (2013) posit that household access to credit in a liberalised financial system helps to contribute to the economic growth of that economy. They support the argument that an expansion in the financial market, leads to increasing household access to credit, which stimulates higher private consumption and increase in the gross domestic product of the respective country.

Other macroeconomic studies[132] examine the asset price inflation argument which provides the platform for the rising levels of household debt in the United Kingdom. These studies contend that the increasing prices of houses and the resulting volatilities in the housing market were responsible for the increasing use of credit cards in these economies.

To this end, there are no unanimity in the reasons behind the unsustainable rise in household debt in advanced capitalist economies. A large percentage of the macroeconomic drivers of household debt provide no empirical relationship behind the increasing use of household debts in meeting their financial obligations.

Thus, the thesis provides a cogent and comprehensive argument as to the causes of household debt in the United Kingdom. The thesis argues that the end of Fordist high wages and the falling rate of profit led to the unsustainable growth of household debt in the UK.

Fundamentally, this chapter test empirically the hypothesis that financial liberalisation and credit expansion has led to the increasing use of household debt in meeting their financial

[131] These include Taylor (2009) and Justiniano et al. (2015) argument on the role of low interest rates increased household debt as well as the impact of debt-led consumption regimes by Stockhammer (2015); Hein (2012); Kim et al (2012) and Stockhammer and Wildauer (2016) as contributing to the increases in household debt.

[132] These include Ryoo’s (2016); Godley and Lavoie’s (2007); and Cooper and Dynan (2014) while Frank et al. looked at income inequality as the basis for increasing household debt.

obligations in the United Kingdom. The thesis examines the influence of financialisation in the United Kingdom between 1971 and 2015.

Specifically, the thesis presents a novel approach to estimating the macroeconomic drivers of household debt in the United Kingdom. The thesis provides by including variables that look at the historical determinants of rising household debt and excluding variables that may be redundant in previous studies.

Lastly, the thesis employs time series data in econometric analysis to test the relationship between household debt and financialisation in the United Kingdom. Essentially, chapters 2,3,4 and 5 provides the analytical tools useful in determining the relevant variables that account for the increasing use of debt by household in the United Kingdom.

To this end, sections 7.2 through to 7.5 employs specific empirical tools to draw inferences and provide guidance on the determinants of household debt in the United Kingdom. The chapter concludes with several diagnostics test and robustness checks.

7.1 Overview of Hypothesis on Household Debt

This section provides an outline on the competing arguments for the determinants of household debt in advanced capitalist economies. The thesis departs from previous studies by providing a novel approach into the causes of rising household debt in the United Kingdom. It argues that the end of Fordist high wages and the tendency of the rate of profit to fall are the twin platforms on which household debt have been rising to unsustainable levels in the United Kingdom.

Stockhammer and Moore (2018) identify eight different hypotheses on the macroeconomic drivers of household debt but investigated seven different hypotheses in a panel data econometric analysis. Unfortunately, they could not account for the credit supply hypothesis in their empirical investigation because of insufficient data.

In addition, the difficulty by Stockhammer and Moore in accounting for credit supply hypothesis in their study provided other studies to use financial asset hypothesis, expenditure cascade hypothesis, falling wages hypothesis, welfare retrenchment hypothesis, age structure hypothesis and low interest rate hypothesis.

Contrastingly, Ryoo argue on the role that house prices play in determining the level of household debt in advanced capitalist economies. Ryoo explained that in a deregulated market, a direct correlation exists between house prices and levels of borrowing. He argued that the house price hypothesis was very significant in the investigation of the causes of household debt in advanced capitalist economies (Ryoo 2016, p.976 – 978).

Secondly, the financial asset hypothesis proposes that an increase in the movement of stock prices have a positive effect on the level of household debt in an economy. That is, a positive correlation exists between the level of stock prices and the level of household debt such that as stock prices appreciate, it produces a corresponding increase in the level of household debt.

Thirdly, as previously argued in chapter 2, the effect of consumption-induced expenditure may also lead to an increase in the accumulation of debt. Duesenberry (1949) argue that income inequality between households play an important role in the accumulation of debt in a country. This is due to poor household increased demand for credit facilities in augmenting their low wages.

In addition, the impact of low-interest rates on the growth of household debt follows from the monetary policy and credit supply hypothesis as it contributes to the ability of households to accumulate debt at low rates. Taylor argue that the predominant monetary policies in the United States contributed to the rise of household debt as these households continue to demand for credit cards in a low-interest rate era (Taylor 2009, pp.11 – 12).

Thus, Table 7.1 below summarises the various hypotheses that have been tested empirically in various jurisdictions using a myriad of empirical methods in explaining the rise of household debt in advanced capitalist economies. Mainly, one can surmise that there has been no consensus on the determinants of household debt; and the various empirical studies have not provided enough rationale behind the unsustainable rise of household debt in the United Kingdom.

A shortcoming and point of departure from the above hypotheses is the exclusion of household wages and the rate of profit as a variable in the econometric analysis of household debt in advanced capitalist economies. The arguments enunciated above carry various connotations but provide no unanimity on the causes of increasing household debt in these economies.

This thesis therefore provides a contemporary perspective into the causes of increasing household debt by investigating the role that the end of Fordist high wages and the declining rate of profit has had on household indebtedness in the United Kingdom since the advent of globalisation/financialisation in advanced capitalist economies.

Table 7.1: Survey of Hypotheses on the various causes of household debt

No	Hypothesis	Theoretical Framework underpinning the arguments	Corresponding variable and predicted sign
1	House price hypothesis	Household debt is driven by house prices, as an increase in house prices increases collateral, which relaxes credit constraints, and an increase in house prices increases household wealth, which prompts consumption which is realised by borrowing against the value of the residential property.	House prices (*HP*) $\frac{\partial HHD}{\partial HP} > 0$
2	Financial asset hypothesis	Upward movements in stock prices drive households to take on debt as leverage to purchase stocks.	Stock prices (*SP*) $\frac{\partial HHD}{\partial SP} > 0$
3	Expenditure cascades hypothesis	An increase in the income of households at the top end of the distribution drives household debt, because households at the lower end of the distribution takes on debt to emulate the consumption of richer households.	Top 1% share of income (*TOP1*) $\frac{\partial HHD}{\partial TOP1} > 0$
4	Falling wages hypothesis	Households use debt as a substitute for reduced wage income to maintain path-dependent, backwards-looking consumption norms.	Average wages ($WAGES$) $\frac{\partial HHD}{\partial WAGES} < 0$
5	Welfare retrenchment hypothesis	Reduced welfare spending causes households to take on debt for spending on their basic welfare needs.	State welfare spending ($WELFARE$) $\frac{\partial HHD}{\partial WELFARE} < 0$
6	Age structure hypothesis	The age structure of the population determines household debt because the young accumulate debt while the elderly dissave.	The Fraction of the population aged 65 and older (AGE) $\frac{\partial HHD}{\partial AGE} < 0$
7	Low-interest rate hypothesis	A low short-term interest rate drives household debt in the first instance as borrowing becomes cheaper in the long run.	Short-term interest rate (i) $\frac{\partial HHD}{\partial i} < 0$
8	Credit supply hypothesis	Banks supply more loans to households, allowing households to take on more debt than previously permitted.	Credit supply ($CRED$) $\frac{\partial HHD}{\partial CRED} > 0$
9.	Rate of Profit Hypothesis	The declining rate of profit in real sector continues to influence the wages accruable to the household sector especially in the era of financial deregulation where the markets continue to play a dominant role in most advanced capitalist economies. The increased financial speculation by non-financial firms and banks to earn commensurate profit levels have seen the integration of the households through the supply of credit facilities to augment households' meagre wages.	Rate of Profit (ROP) $\frac{\partial HHD}{\partial \mathrm{ROP}} > 0$

Source: Authors adaptation of Stockhammer & Moore (2018)

The inclusion of the rate of profit is significant in the examination of the causes of the rising household debt. Marx (1978) argues that the increasing expansion of credit markets and fictitious capital (achieved by the speculative investments in financial instruments such as equities, fixed income, derivatives, swaps, options and other monetary instruments) is topical in compensating for the declining profit levels in economies.

Mainly, the declining fall in average rate of profit in the real sector promotes speculation, especially household debt speculation, as capitalists seek for other avenues to earn commensurate returns for their capital invested. This results in the drive by capitalists to earn profit levels commensurate to their investment level activity often increases the prices of financial assets and thereby increases bubbles and credit crisis.

Essentially, the speculation in the housing markets that led to the current phase of capitalist crises in advanced capitalist economies such as the United Kingdom was very topical to the growth of household debt. This phenomenon was prevalent in these economies especially in the United States and the United Kingdom as households were able to borrow large sums of money often higher than their income levels for the purposes of mortgages and re-developments in real estates.

Moreover, this thesis departs from previous arguments by positing that the resulting crisis was indeed a crisis of the falling average rate of profitability. The falling rate of profitability hypothesis expounds on the impact that the hegemony of finance has had on expanding the credit market and the financial sector in general.

In summary, Marx's law of the tendency of the rate of profit to fall and stagnant wages are the twin platforms for the underlying rise of household debt in the United Kingdom, especially the temporary inflation of profits in unproductive sectors of the economy to compensate for the declining profitability in the economy.

7.1.1 Related Empirical Literature

Following from the previous section, Table 7.2 below provides a summary of the various empirical studies investigating the role of household debt in various countries, outlining the economic variables and econometric analysis.

Table 7.2: A brief summary of econometric studies on the causes of household debt

Author(s)	Explanatory variables	Sample; Estimation method	Hypotheses Tested
Time Series Studies			
Kohn and Dynan (2007)	HP, DEMOG,	US, SCF data in waves, 1983, 1989, 1992, 1995, 1998, 2001, 2004; OLS	HPH (+)
Oikarinen (2009)	HP, GDP, i, SP	Finland, 1975-2006; VECM, Granger causalities	HPH (+) FAH (0)
Gimeno and Martinez-Carrascal (2010)	HP, WS,i, iN	Spain, 1984 – 2009; CVECM	HPH (+)
Valverde and Fernandez (2010)	HP, HP/rentY, iM, GROSSWAGE, i, GDP PC, DEFAULT, IBEX-35	Spain, 1988 – 2008; VECM	HPH (+) FWH (+)
Meng et al. (2013)	DWELLINGS, HP, i, UE, GDP, POP	Australia,1988 – 2011; CVAR	HPH (+) LIH (-)
Anundsen and Jansen (2013)	HP, Yd, STOCK, HTURNOVER, e, iL, iPT, HSTARTS, HI, CC, DEP	Norway, 1986 – 2008; CVAR, SVECM	HPH (+)
Source: Stockhammer & Moore (2018)			

Where;

Description	Hypothesis Definitions
HPH	house price hypothesis,
FAH	financial asset hypothesis
FWH	falling wages hypothesis
LIH	low interest rate hypothesis
CSH	credit supply hypothesis.
Note that positive sign **(+)** indicates a statistically significant and positive effect on household debt whilst the negative sign **(-)** indicates a statistically significant and negative effect on household debt. **(0)** indicates no statistically significant effect on household debt.	

<u>Estimation method abbreviations</u>:
CVAR refers to co-integrated vector auto-regressive approach;
ECM refers to error correction model;
OLS refers to ordinary least squares regression approach;
SVECM refers to structural vector equilibrium correcting model;
VECM refers to vector error-correction models;

<u>Variable abbreviations</u>:

HP refers to house prices;
WS refers to labour income;
iN refers to nominal interest rate;
DEMOG refers to demographic variables (age of head, age of head squared, age of head cubed, head has high school degree, head has college degree, where head refers to the head of the household),
Yd refers to household disposable income;
GDP refers to real GDP,
i refers to the real interest rate,
SP refers to real stock prices;
HP/rentY refers to house prices/rental income;
iM refers to nominal mortgage credit interest rate;
GROSSWAGE refers to real gross salary per employee;
GDP PC refer to GDP per capita;
DEFAULT refers to mortgage credit default rate;
IBEX-35 refers to the rate of variation in IBEX-35 in the Spanish stock exchange;
DWELLINGS refers to no. of new dwellings approved;
UE refers to the unemployment rate;
POP refers to population;
STOCK refers to housing stock;
HTURNOVER refers to housing turnover; e refers to expectations;
iL refers to nominal interest rate on loans;
iPT refers to real post-tax interest rate;
HSTARTS refers to housing starts;
HI refers to investments in housing;
CC refers to construction costs;
DEP refers to rate of depreciation of housing stock;
I refers to investment/GDP;
M2 refers to M2/GDP;

Following from the above table, various hypothesis has attempted to investigate the role that household debt plays in an economy, unfortunately there seems to be no unanimous consensus on the factors that drive the increasing level of household debt in advanced capitalist economies. That is, house price hypothesis; financial asset hypothesis; falling wages hypothesis; low interest rate hypothesis and even credit supply hypothesis have not sufficiently explained the increasing dependence of households on credit facilities to meet their financial obligations in the United Kingdom.

Thus, the thesis follows previous studies such as Stockhammer and Wildauer (2017), in testing for the macroeconomic determinants of household debt by combining various hypothesis in one study. These hypotheses include house price hypothesis, expenditure cascades hypothesis, age structure hypothesis and credit supply hypothesis; they argued that house price is an important explanatory variable delivering robust result in both time series studies[133] and panel data studies.

To this end, the thesis introduces the rate of profit as an explanatory variable and a novel approach into examining the causes of the increasing level of household debt in the United Kingdom. This is represented by the various variables extracted from the literature in chapter 2 and subsequent chapters and presented as follows:

HHD = F(HSE_PR, RATE OF PROFIT, RPI, WAGES, STOCK_MARKET)........ Eq.(7.1)

(-/+) (-) (+) (-/+) (+)

The above equation estimates household debt (HHD) as a function of the natural logarithm of real average wages (WAGES); the rate of profit (ROP); market capitalisation as a proportion of GDP (STOCK) which is the most commonly used measure or proxy of financial development and financialisaton, retail price index (RPI) and natural logarithm of real house prices (HP). The following section gives a detailed explanation on the source of data employed and the resulting econometric analysis.

7.2 Data Sources and Description

7.2.1 Econometric Estimation methods

Asteriou and Hall (2016) posited that econometrics is a suitable technique in identifying the various economic theory and the contemporaneous relationships between regressors and national variable. This helps to reveal the temporal structure and dynamics of the data in a historical and contemporary fashion by building an efficient model over time. Asteriou and Hall argue that time series are very topical in macroeconomic analysis as they are suitable for identifying clear trends and patterns over time.

A time series is basically a stochastic process, which encapsulates a sequence of stochastic variables collected over time and ordered accordingly to reflect these random variables.

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[133] Kohn and Dynan (2007); Oikarinen (2009); Gimeno and Martinez-Carrascal (2010); Valverde and Fernandez (2010); Anundsen and Jansen (2013); Meng et al., (2013) employed ordinary least squares; vector error correction model (VECM) and Granger causality tests; co-integrated vector autoregressive models (CVAR) respectively to explain house prices as one of the key drivers of household debt in their respective macroeconomic studies.

Gujarati argue that “time series possess features that make them to be stationary such that the mean and variance are held constant over time. The value of the covariance between two time periods is determined by the distance between these two time periods, and not the actual time at which the covariance is computed” (Gujarati, 2015, pg. 250-251).

To this end, the Autoregressive Distributed Lag Model (ARDL) method is preferred as above other estimators[134] to investigate the underlying relationship between the unsustainable growth of household debt and economic growth in the United Kingdom.

The ARDL model is a robust estimator used in time series analysis and provides a platform to explain the relationship between macroeconomic and financial variable in a dynamic model. The ARDL captures the dynamism in the model by providing the best platform for estimating the multiplier effects of the covariates as well as good forecasting techniques in time series (Gujarati, 2015, pg. 159).

Additionally, the model allows for the estimation of both the long and short-run effects of the phenomenon and uses the error correction term (ECM) in correcting the errors from the initial position in the short run to the long run. In the long run, it provides a re-parameterised model of the first one without losing its desirable property of providing reliable estimates (Gujarati, 2015, pg. 150-157).

This approach is more resilient than any other estimators[135] in accounting for the moment conditions as the explanatory variables and lagged values of the dependent variables are uncorrelated with the error term. Essentially, this approach overcomes all under-identifying restrictions in the model and is consistent with the weighting matrix, accounting for the serial correlation in the errors.

To this end, based on the available literature and the various variables previously highlighted in similar studies such as (Palley, 1994), Palley (1994), Kim (2013, 2016), Guschanski and Onaran (2016). This thesis follows the above studies and provides a novel approach into the factors that have culminated in the growth of household debt in advanced capitalist economies such as the United Kingdom.

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[134] These approaches include A. Mutezo (2014) study on household debt and consumption spending using the ARDL; Kohn and Dynan (2007) used the ordinary least squares; Oikarinen (2009) using the VECM model to test the drivers of household debt; Gimeno and Martinez-Carrascal (2010) used the CVECM estimation technique for household debt in Spain; Meng et. al (2013) employed CVAR, SVECM estimation technique for the Norwegian economy.

[135] This contrasts with the approach by Campbell and Mankiw (1990) who employed the two-stage least squares and instrumental variables in testing the permanent income hypothesis by estimating a proportion of consumers who consume out of their current rather than permanent income in estimating the relation between consumption changes to the changes to income level.

- **Household Debt – Economic Growth Nexus**

The section looks at the sources of data and provides an overview of the data used in evaluating the unsustainable growth of household debt and its contribution to economic growth in the United Kingdom. It reviews the long-run relationship between the proximate causes of household debts and its impacts on the overall economic growth in the United Kingdom.

The above variables were sourced from several data-generating organisations and agencies such as Organisation for Economic Co-operation and Development (OECD), Bank for International Settlements (BIS), FRED, Office of National Statistics, PENN, Bank of England (BOE), International Monetary Fund (IMF) and World Bank. The next section provides a methodology to the model and highlights the estimation processes and specification used in the thesis

- **Dependent Variable**

There seems to be a lack of congruency and acceptance as to the best variable to use as the dependent variable because of the different economic environments in different countries. The Bank of England (BoE), provides time series annual data on household debt as a percentage of household income from the 1920s till 2016 in the BoE Millennium of Data (Sheet A25). This is defined as the Total mortgage and unsecured debt of individuals (excludes unincorporated business and NPISH), otherwise referred to as Household Debt as a % of Household Disposable income. To this end, this study follows (Coletta, et al 2015) in employing credit to household and NPISH as a proxy to measure household debt and the dependent variable to regress on some other independent factors or covariates in the United Kingdom.

- **Independent Variables**

These independent variables are judiciously used in the context of this study to unravel the impact of the unsustainable growth of household debt in Anglo-Saxon economies. It evaluates this phenomenon by including new and innovative variables that have not been used before in other studies. These variables have already been accounted for in other studies (Fisher, 1933), relatable to other research by (Mishkin, 1978; King, 1994; Mian and Sufi, 2010, 2016), (Indicators, 2006) and (Stockhammer, 2017). These variables have been collected specifically to measure the dynamism of household debts in the United Kingdom and are stated below, namely;

Rate of Profit: This thesis draws from Marx's definition of the rate of profit (ROP) as the general or overall rate of profit in any economy especially the surplus value generated by the labour force which is then divided by the cost of employing that labour force and the cost of tangible or physical assets and raw materials employed in production. This is designated as $P = s/c + v$, where P is the rate of profit, s is surplus value, c is constant capital (means of production), and v is the cost of the labour power. Following from Marx's definition, this thesis follows in the tradition of other Marxists economists by following data used in Micheal Robert's analysis and calculated as follows: S = net national product (that's GDP less depreciation) less v (employee compensation); c = net fixed assets (either on a historic or current cost basis); and v = employee compensation, that is, wages plus benefits.

Proxy for Monetary Policy: The inflation rate as measured by the annual growth rate of the GDP implicit deflator; otherwise referred to as the RPI is used to proxy the impact of monetary policy in the United Kingdom.

Employee Compensation: represented as the annual growth rate of wages and salaries in the United Kingdom. It is used as a proxy for measuring the contribution of labour in wages and carries a negative "a priori" sign to household debt. That is, the unsustainable use of household debt in the economy is because of the low wages and the increasing dominance of capital over the real economy. This is sourced from the Office of National Statistics website and denoted by the ID Dataset KDQ2/QNA.

Proxies of Financial Development/ Financialisation: Stock of liquid liabilities (M2 or M3) to GDP is one of the commonly used measure of financial development in financial research as advanced by (Bhattacharya and Sivasubramanian, 2003); (Rousseau and Wachtel, 2000); (King and Levine, 1993). However, as financialisation is a highly dynamic macroeconomic concept with the various interpretation that no single measure can be employed to represent its impact, this thesis uses the stock market capitalisation to proxy the impact of financial deregulation on an economy. It follows past empirical studies that has investigated the rise of finance in advanced capitalist economies enunciated in the previous chapters in this thesis. It is defined as the value of listed shares to GDP, calculated using the following deflation method: {(0.5)*[Ft/Pet + Ft-1/P_et-1]}/[GDPt/Pat] where F is stock market capitalization, Pe is end-of period CPI, and Pa is average annual CPI. End-of period CPI (IFS line PCPI) and average annual CPI is calculated using the monthly CPI values (IFS line PCPI). This was sourced from the Global Financial Development database at the World Bank.

Proxy for Asset Price developments: House Price Index is used to proxy its impact in contributing to the rise of household debt via and its rationale as a fictitious asset especially house price inflation in the era of deregulation and financial liberalisation in the United Kingdom. It is likely that a strong interaction between demand for household debt and house price exists because of the likelihood of households to augment their income especially during periods of fragility in the financial sector. House price movements appear to have positive relationship with loans and macroeconomic cycles. A priori indicate that house price do have a direct positive relationship with household debt in the short and long run

7.3 Model Methodology, Estimation and Specification

This section outlines the rationale behind the use of the Autoregressive Distributed Lag (ARDL) Models technique in time series statistical analysis. The Autoregressive Distributed Lag (ARDL) Model is a widely accepted parameter estimation technique that examines both the long and short run relationship between dependent and independent variables. The ARDL bound test of cointegration[136] have become the topical econometric tool used in examining macroeconomic and financial variables in regression analysis.

Generally, the ARDL model is a linear time series model in which both the dependent and independent variables possess a relationship in which their lagged values and present values are integrated. The technique examines the relationship between series that are non-stationary as well as providing a re-parameterised version of the model to achieve an error correction Model (ECM).

Given that, Y_t is the dependent variable and X_1, X_2, X_3…, X_k, …, are k explanatory variables, the econometric model is represented by:

$y_t = \beta_0 + \beta_1 x_{1t} + \beta_2 x_{2t} + \beta_3 x_{3t} + \beta_4 x_{4t} + \beta_5 x_{5t} + \mu_t$ ………………… Eq.(7.2)

where,

y represents the dependent variable cred;

$x_1, x_2, x_3, x_4, x_5 \ldots\ldots x_k$ represents house price, retail price index, rate of profit, stock and wages respectively.

β_0 is the coefficient of the intercept and $\beta_1, \beta_2, \beta_3, \beta_4$, *and* β_5 are the coefficients of the k-number of *'x'* regressors. u_t is the stochastic error term. The *t*, the periods, ranges from 1, 2……*T which represents the series data* (1971-2016). The model employs the Schwarz Information Criterion (SIC) to determine the number of lags (p,q) used in the estimation model.

The ARDL representation of Equation 7.1 is detailed in the below equation as follows:

$\Delta CRED_t = \alpha_0 + CRED_{t-1} + \alpha_{2i}\Delta HP_{t-1} + \alpha_{3i}\Delta RPI_{t-1} + \sum \alpha_{4i}\Delta ROP_{t-1} + \alpha_5 i\Delta STOCK_{t-1} + \alpha_{6i}\Delta WAGES_{t-1} + \beta_1 CRED_{t-1} + \beta_2 HP_{t-1} + \beta_3 RPI_{t-1} + \beta_4 ROP_{t-1} + \beta_5 STOCK_{t-1} + \beta_6 WAGES_{t-1} + et$ ……… Eq. (7.3)

Where;

Δ denotes the first difference operator, α_0 is the drift component and the white noise residual is represented by e_t.

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[136] Granger (1981); Engle and Granger (1987), (Pesaran and Shin 1999 and Pesaran et al. 2001) and,Johansen and Juselius (1990) are the different versions of the Autoregressive Distributed Lag (ARDL) bound test of cointegration model.

(β_1, β_2, β_3, β_4, β_5, β_6) represents the long-run relationship and (α_1, α_2, α_3, α_4, α_5, α_6) represent the short-run dynamics of the model between the causes of the astronomical rise in household debt in the United Kingdom.

The Bounds testing approach of Pesaran et al (2001) employs the Wald F-test hypothesis of no co-integrating relationship between the independent variables. Additionally, the bounds testing uses the unrestricted error correction model to establish the long run relationship by extracting the long-run elasticities (coefficients) of the one lagged explanatory variable as against the dependent variable. To this end, the ARDL equation in 7.3 is transformed into the error correction model as represented by the below equation

$\Delta CRED_t = \alpha 0 + \sum \alpha 1i \Delta CREDt_{t-1} + \sum \alpha 2i \Delta HP_{t-1} + \sum \alpha 3i \Delta ROP_{t-1} + \sum \alpha 4i \Delta RPI_{t-1} + \sum \alpha 5i \Delta Stock_{t-1} + \sum \alpha 6i \Delta Wages_{t-1} + \lambda EC_{t-1} + u_t$ ………………………………………… ………… Eq.(7.4)

Where;

λ is the speed of adjustment parameter and EC is the residuals that are obtained from the estimated cointegration model of equation (7.3).

It is imperative to also highlight that the traditional cointegration techniques of Engle-Granger (1987), Phillips and Ouliaris (1990) and Johansen (1995) were quite restrictive in their procedures to estimate the cointegration relationship between variables. The restriction in this technique enforces that the variables must be integrated to the same order. In contrast, the Pesaran et al (2001) bounds test for cointegration departs from any restrictions as it allows for variables to be integrated at any level.

Additionally, Banerjee et al. (1993) argue that an ARDL model converts to a VAR model when the long run variables in the error correction model (ECM) works as if all or some of the variables are mutually cointegrated to the order of I(0) or I(1). The cumulative sum of recursive residuals (CUSUM) and the cumulative sum of squares of recursive residuals (CUSUMSQ) also tests the stability of the model.

Essentially, the Ramsey RESET test is employed to test for the functional form of the regression model, and the Correlation LM (Lagrange Multiplier) tests for the independence of the residuals in the model. The two tests ensure that the model is fit for purpose and overcomes any mis-specification problems.

In conclusion, the cointegration test of ARDL provide the best platform in estimating cointegration relationship between variables of different order, and easier to implement in its estimation and inferential methods than the ordinary least squares regression method. The Pesaran et al (2001) procedure of the ARDL discusses the bounds test for cointegration to estimate the parameters involved in the regression and establish the cointegrating relationships between these parameters.

7.4 Presentation and Discussion of Empirical Results

7.4.1 Descriptive Statistics

This section provides a descriptive data analysis by drawing inferences from the dataset, capturing the statistical result and presenting the data in a form that ensures that the dataset corresponds to the actual phenomenon being measured. Agung (2009) reiterated this assertion by arguing that specific covariates and regressors used in any empirical analysis must capture the causal relationship between the dependent and the independent variables.

In econometric analysis, the use of descriptive data analysis has always been an important aspect as it supports the unique presentation of datasets used in the empirical analysis. The use of a summary table, graph and diagrams provides a summative outlook and ensures that the datasets capture the necessary information required for effective policy evaluation and advanced statistical analysis.

Table below 7.2 below presents the minimum and maximum values of the observations and confirm that the observed values are within the expected range. It validates the datasets and confirm that the predictors of household debt in the United Kingdom are valid and reliable. Thus, it confirms the theoretical assumptions that house prices, retail price index have been increasing at a steady rate in line with household debt whilst rate of profit and wages have been declining in the United Kingdom.

Figure 7.2 Descriptive Analysis

	LN_CRED	LN_HP	LN_ROP	LN_RPI	LN_STOCK	LN_WAGES
Mean	3.990751	3.729849	1.028775	3.778815	4.265648	1.759817
Median	4.060012	4.096956	1.061251	4.008734	4.537032	1.909296
Maximum	4.561218	4.738666	1.791759	4.622425	5.092338	3.380995
Minimum	3.373312	1.665358	0.262364	2.059829	1.809927	-1.609438
Std. Dev.	0.414441	0.931711	0.343255	0.717373	0.68953	0.85823
Skewness	-0.187449	-0.846493	-0.114424	-0.965179	-1.313638	-1.264315
Kurtosis	1.653642	2.45045	2.778847	2.948994	4.710685	6.514808

7.4.2 Test for Stationarity of Time Series

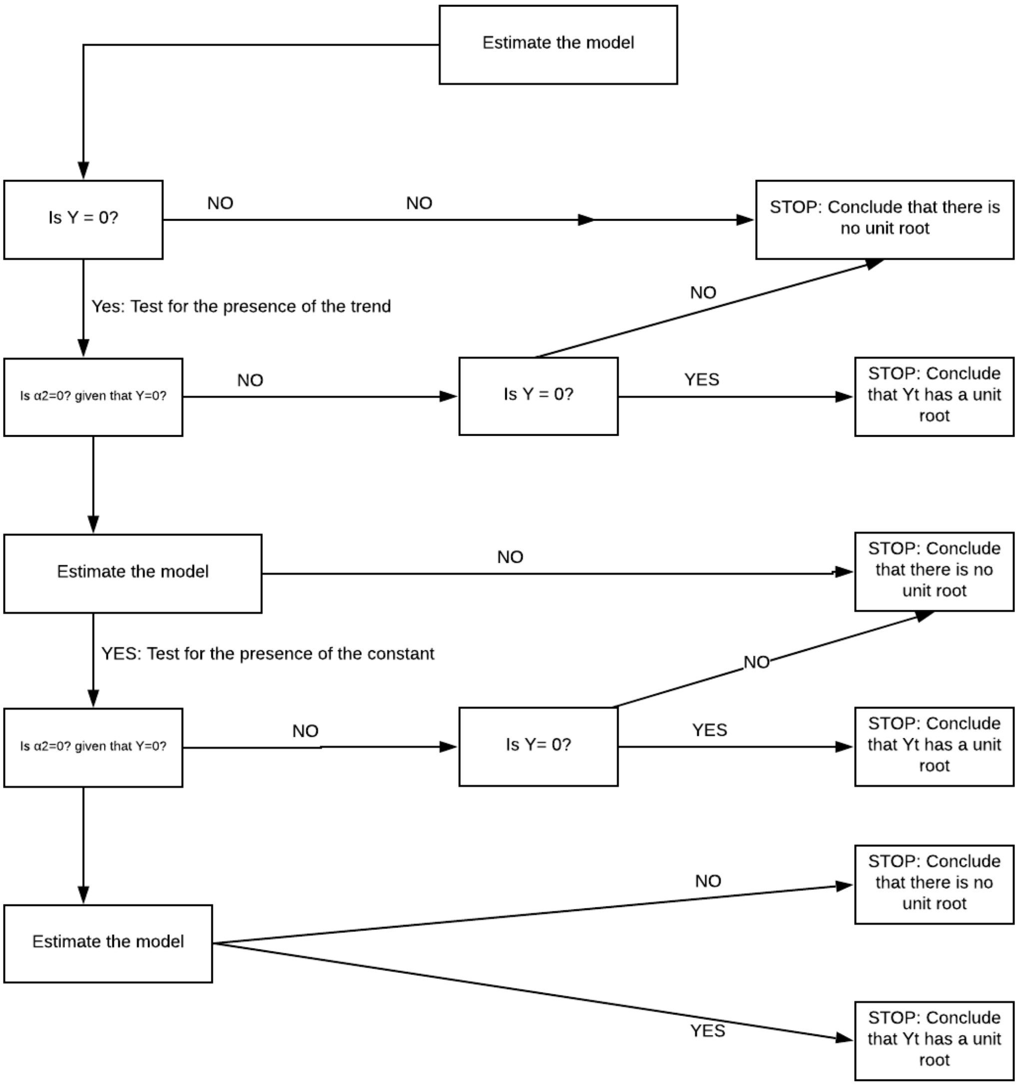
Graphical Representation of Unit Root Analysis

One of the assumptions in time series regression analysis is the test for the stationarity of the series to ensure that the regressors uncorrelated with the disturbance term. Harris and Sollis (2005) argue that stationary covariates or predictors usually indicate the presence of time-invariant mean, variance and auto co-variances.

According to Gujarati, it is assumed in regression analysis that time series data are stationarity, if and only if, the mean and variance remain constant over time. The covariance between two time periods depend only on the distance between the two periods and not the actual time at which the covariance is computed. Time series are indeed good examples of a stochastic process in which the sequence of random variables are ordered in time (Gujarati, 2015 pp.250-253).

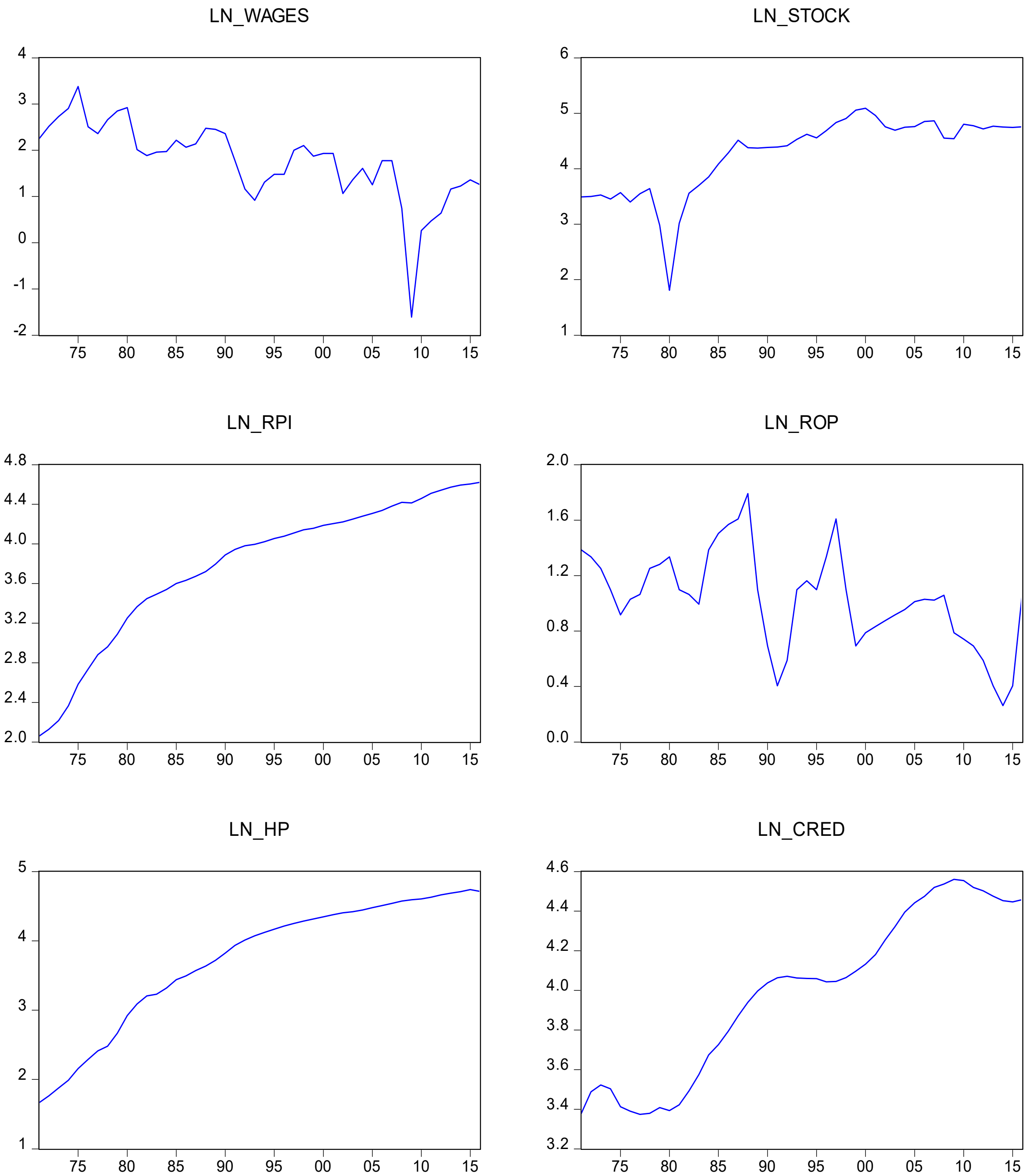
The initial starting point is to examine the distribution of the time series data collected over time by identifying the stationary properties of the distribution and ensuring that a suitable estimation technique is selected for the econometric analysis. Figure 7.4 below represents a procedure to estimate the suitability of the model and the required steps to take in the econometric analysis.

Figure 31: Procedure for testing for unit-root tests



Source: Author's adaptation of Enders (1995) procedures on unit root testing

Figure 32: Visual Representation of Unit-Root Tests



- ***Unit Root Analysis***

The Dickey–Fuller (ADF) tests examines and confirms the existence of unit root by including an additional lagged term of the dependent variable in order to eliminate autocorrelation between the variables in the model. Although, most macroeconomic models are typically trend and not stationary, thus, the time series are to be differenced in order to make them stationary (Asteriou and Hall, 2016, pg 297).

Thus, in testing the series for the presence of a unit root test and non-stationarity, the lag length on the additional lagged variables are either determined by either Akaike Information Criterion (AIC) or Schwartz Bayesian Criterion (SBC).

Unit Root test

Null Hypothesis Ho: $\delta = 0$ (1^{st} autocorrelation ρ=1)

Alternative Hypothesis Ha: $\delta \neq 0$ (ρ<1)

From the result presented below; the series is stationary from the levels to first – difference as expected from a theoretical perspective as highlighted through the literature review in Chapter 2. The ADF reveals either the presence of unit root or that the time series is nonstationary.

The table below presents the result after performing the Augmented Dickey-Fuller test at levels I(0), first difference I(1) or second difference I(2) at the critical levels of 1% 5% or 10% respectively. We can conclude that from the null hypothesis of the predictors having a unit root, against the one-sided alternative, the predictors were stationary in either levels or first difference.

Essentially, one can assume that household debt, rate of profit, wages, retail price index, house price, stock market capitalisation as a percentage of GDP were all stationary at the levels and first differences. The next stage is to run a regression analysis with a model that is stationary and combines the short-run and long-run features of the econometric model.

Table 7.2: A summary of the Unit Root Test using ADF

Unit root test - using the Augmented Dickey-Fuller (ADF) approach and Schwarz Info Criterion (SIC) method for lag length selection.

Conditions [included exogenous]	Variables	Levels		First Difference		Rule
		t-Statistics	**5% critical value**	**t-Statistics**	**5% critical value**	
Intercept	LN_CRED	-1.912513	-2.938987	-4.538436	-2.938987	I(1)
Intercept & trend		-3.982961	-3.515523	-4.862259	-3.529758	
None		3.34552	-1.949609	-2.868596	-1.948495	
Intercept	LN_ROP	-3.893019	-2.929734	-4.256066	-2.929734	I(1)
Intercept & trend		-4.565964	-3.515523	-4.189097	-3.515523	
None		-0.952218	-1.948313	-4.33186	-1.948495	
Intercept	LN_WAGES	-2.385111	-2.928142	-7.132385	-2.929734	I(1)
Intercept & trend		-3.875011	-3.513075	-7.04876	-3.515523	
None		-1.232	-1.948313	-7.199555	-1.948495	
Intercept	LN_STOCK	-1.290837	-2.931404	-6.261681	-2.929734	I(1)
Intercept & trend		-1.831351	-3.51809	-6.196462	-3.515523	
None		0.601675	-1.948686	-6.283593	-1.948495	
Intercept	LN_RPI	-4.510435	-2.929734	-1.965828	-2.929734	I(0) at Intercept and trend
Intercept & trend		-4.183916	-3.515523	-3.332772	-3.515523	
None		0.75142	-1.948495	-1.447641	-1.948495	
Intercept	LN_HP	-4.03779	-2.938987	-0.751232	-2.936942	Integrated I(0) at Intercept and I(1) Intercept and trend
Intercept & trend		-2.615238	-3.513075	-4.248274	-3.515523	
None		-0.481351	-1.949319	-1.635386	-1.949319	

Note: Critical Value are taken from MacKinnon (1996)

OLS Model Estimation

In time series, the OLS estimation method breaks down when the series is non-stationary, and the series suffers from the unit root. Thus, the previous section helps to overcome any form of spurious regression by eliminating any presence of unit root in the model. Moreover, when time series are stationary, it is advisable to apply the ordinary least squares or vector autoregressive (VAR) model to produce unbiased estimates.

Following from the above, wages, rate of profit, stock market capitalisation as a percentage of GDP, house prices and retail price index were non-stationary and had to be differenced once to achieve stationarity. The variables were transformed, and the transformation of the differenced model measures the elasticity of these variables as follows:

$$Log(CRED_t) = \alpha + \beta_1 Log(ROP_t) + \beta_2 Log(Wages_t) + \beta_3 Log(STOCK_t) + \beta_4 Log(RPI_t)\ \beta_5 Log(HP_t) + e_t$$

$$\underset{0.4144*}{Ln(CRED_t)=3.3394} + \underset{0.0644**}{(-0.1189)Ln(ROP_t)} + \underset{0.0324*}{(-0.0833)Ln(Wages_t)} + \underset{0.0591**}{(0.1020)Ln(STOCK_t)} + \underset{0.3305**}{(-0.5902)Ln(RPI_t)} + \underset{0.2793*}{0.7280Log(HP_t)}$$

*Adj. R^2 = 0.9046, F. Stat: 86.37. DW-Stat 0.40, * sig at 5%, ** sig at 10%*

In conclusion, the result suggest that the level data show robust result with high adjusted R^2 values; significant F-statistics, Durbin-Watson statistics lower than 2 and the variables were significant at 5 and 10 percent respectively.

7.4.3 The Cointegration Analysis and Tests

The concept of cointegration was established by Granger (1981) and further expatiated upon by Phillips (1986, 1987), Johansen (1991,1995a), Stock and Watson (1988), Phillips and Ouliaris (1990), as a preferred regression method when the assumptions of ordinary least squares method become increasingly difficult to meet.

Cointegration remains one of the most important and significant models in macroeconomics modelling involving time series data set where economic theory could be investigated for the long run relationships between variables. It uses a number of cointegrating techniques such as the Engle and Granger technique or the modified version of this technique called the Johansen methodology in regression analysis.

Cointegration theory postulate that when there is a long run relationship between different levels of predictors such that they are not too different from each other, the possession of a common link between them makes them stationary. Engle and Granger posit that if two or more non-stationary series are linearly related, it can be assumed that these variables are co-integrated in the long run and this forms the basis on which they can be studies in an economic perspective (Engle and Granger 1991, p. 8).

Using the general equation model where

$$y_t = \beta_1 + \beta_2 x_t + \mu_t \text{ .... (Eqn. 7.6)}$$

By differencing the data in Equation (7.5), we can obtain stationary variables that in the regression model

$$y_t = a_1 + a_2 x_t + \mu_t \text{ .... (Eqn. 7.7)}$$

Transforming the regression model in Equation (7.5) above, produces valid estimates of the a_1 and a_2 parameters that solves the spurious regression challenge in the interim, but this model only provides the short-run relationship between the variables with no long run relationship. In the long run, so long as Y_t and X_t are both Integrated of I(1), then the special case of linearity relationship between Y_t and X_t becomes co-integrated which makes the previously identified spurious regression valid.

$$\mu_t = y_t - \beta_1 - \beta_2 x_t \text{ .... (Eqn. 7.8)}$$

Equation (7.8) provides the long run relationship between the dependent variable and the predictors. The error correction model specifies that these variables are cointegrated such that it is transformed to:

$$y_t = a_0 + b_1 x_t + \mu_{t-1} + e_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(Eqn. 7.9)}$$

From the above model, bi represents the impact multiplier for the short run by expressing the immediate impact a change in x_t will have on a change in y_t. The adjustment effect determines the proportion of the disequilibrium that is being corrected in the model. That is, it measures the extent to which any disequilibrium in the previous period affects any adjustment in y_t. In the final analysis, $u_{t-1} = y_{t-1} - b_1 - b_2 x_{t-1}$, ...b_2 represents the long run response estimated by equation 7.6.

The error correction model is an important tool in estimating the short and long run economic relationships between variables. The ECM is a suitable model, because of it ability to foster econometric relationship between variables, as well as discovering the correction from the disequilibrium point in the model from previous periods (Asteriou and Hall, 2016 Pg. 371).

In addition, the error correction model helps to fit macroeconomic models from the generic to the specific by producing the best parsimonious ECM that represents the data set in the time series. The ECM does this by adjusting and correcting the adjustment process that prevents the errors from becoming larger and larger in the long run (Asteriou and Hall, 2015 Pg. 372).

Lastly, the error correction mechanism is a convenient reparameterization of the general linear autoregressive distributed lag (ARDL) model which provides a platform for the ARDL bounds testing procedures to be tested for the presence of a long run relationship between household debt and the independent variables.

7.4.4 The Autoregressive Distributed Lag (ARDL) Bounds Test

The Engle - Granger approach employs the OLS estimator approach by testing the residuals from regression analysis to ensure that they are stationary using the Augmented Dickey-Fuller. Enders argue that the Johansen approach replaces the Engel-Granger approach in a special case where the co-integrating vectors are more than two. Engel-Granger approach overcomes all challenges and difficulties by isolating all multiple vectors (Enders 2004, p. 347).

To this end, all variables that are integrated of order (1) possess a long run equilibrium relationship linking Ln_House Price, Ln_Rate of Profit, Ln_ Retail Price Index, Ln_Stock and Ln_Wages to household debt.

The resulting estimates explains the rationale behind the unsustainable growth of household debt as a function of the end of fordist high wages and declining profit rate in the era of neoliberal financialisation. Using the Johansen Approach, the single equation error - correction model is extended to a multivariate five variables (Ln_House Price, Ln_Rate of Profit, Ln_ Retail Price Index, Ln_Stock and Ln_Wages which are all endogenous (using matrix notation of $Z_t = [Y_t, X_t, W_t, P_t, T_t, V_t]$).

$$Z_t = A_1 Z_{t-1} + A_2 Z_{t-2} + A_3 Z_{t-3} + A_4 Z_{t-4} \ldots\ldots\ldots + A_k Z_{t-k} + \mu_t \ldots\ldots\ldots\ldots\ldots \quad (Eqn.\ 7.8)$$

Using the ARDL approach to establish valid and stable estimates, the ARDL technique of the vector error correction model (VECM) is re-specified and allows for the simultaneous testing of both the short and long run relationships between the series.

The ARDL approach is chosen over others because of its ability to provide reliable estimates, unbiased coefficients, and is efficient in small and finite sample sizes. Thus, the method is robust to examine the existence of long run relationship between Household debt, financial development variables such as stock market capitalisation to GDP, macroeconomic variables such as wages, house prices, retail price index and rate of profit.

Asteriou and Hall (2011) argue that the channels of causation between the two variables is explained by the coefficients of the exogenous lagged variables and the error correction term which captures the speed of adjustment of the model towards its long run equilibrium. It becomes important to ascertain the optimal lag length in Johansen test because any omission of a suitable lag length of the variables will affect the features and overall behaviour of the model.

Lastly, the optimal lag length is chosen from the model that minimizes the Akaike information criterion (AIC) or the Schwarz's Bayesian information criterion (SBC) by including all the variables in levels (non-differenced data). The intention is to examine the values of the (AIC) and the (SBC) in association with other diagnostics tests of autocorrelation, heteroscedasticity and normality of the residuals and choosing the optimal model. In other words, the model that minimizes the AIC and SBC is accepted as the one with optimal lag length that passes the diagnostic tests (Asteriou and Hall, 2016 p.383).

7.4.5 Empirical Result and Discussion

The ARDL Bound cointegration test model empirically analyse the long run relationships and short run dynamics on the behaviour and features of each variable used in a model. Specifically, the test analyses the impact of house price, rate of profit, retail price index, wages, stock market as a percentage of GDP on household debt in the United Kingdom.

The econometric notation in (Eqn 7.10) is rewritten as:

$CRED_t = \beta o + \beta_1 ln\_HP_{t-1} + \beta_2 lnROP_{1t-1} + \beta_3 lnRPI_{2t-1} + \beta_4 lnStock_{3t-1} + \beta_5 lnWages_{4t-1} + _{t-1} + _{t-1} + _{t-1} + _{t-1} + _{t-1} + _{t-1} + e_t$…(Eqn 7.12)

Using the lag length criteria to determine the optimal lags, figure 7.6 shows the statistical result using various criteria such as the Akaike (1969, 1973) Information criterion, Schwartz (1978) Information Criterion, Bayesian Information Criterion and The Hannan Quinn (1979) Criterion. They all showed lag 1 as the optimum number of lags for this model, which is sufficiently large enough to accommodate the serial correlation problem and minimises it to ensure that the error correction mechanism doesn't fail (Pesaran et al.; 1996, 2001).

Table 7.6: Statistics for selecting the Lag Order of Household Debt

Endogenous variables: D(LN_CRED)
Exogenous variables: C LN_CRED(-1) LN_HP(-1) LN_RPI(-1) LN_ROP(-1) LN_STOCK(-1) LN_WAGES(-1)
Included observations: 41

Lag	LogL	LR	FPE	AIC	SC	HQ
0	87.05568	NA	0.001183	-3.905155	-3.612594	-3.79862
1	108.2188	34.06754*	0.000443*	-4.888724*	-4.554369*	-4.766970*
2	108.7187	0.780314	0.000455	-4.864329	-4.488179	-4.727355
3	108.8096	0.137468	0.000477	-4.819983	-4.402038	-4.66779
4	108.937	0.18645	0.0005	-4.777417	-4.317678	-4.610006

* indicates lag order selected by the criterion

LR: sequential modified LR test statistic (each test at 5% level)
FPE: Final prediction error
AIC: Akaike information criterion
SC: Schwarz information criterion
HQ: Hannan-Quinn information criterion

Applying the Dodaldo et. al (1990) procedure determines the appropriate model and examine the number of lags according to the Schwarz information criterion. The econometric model is estimated as follows with the lag selection criteria at p=1 and q=1. From the unrestricted equation results presented in table 7.7 below; it can be assumed that a couple of the regressors are insignificant in the regression.

Table 7.7: Unrestricted ARDL Error correction Model

Dependent Variable: D(LN_CRED)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.140266	0.208684	0.672144	0.5072
LN_CRED(-1)	0.011131	0.048178	0.231042	0.819
LN_HP(-1)	-0.010243	0.088592	-0.115624	0.9088
LN_RPI(-1)	0.035029	0.100057	0.350094	0.729
LN_ROP(-1)	0.044906	0.020545	2.185701	0.0377
LN_STOCK(-1)	-0.068328	0.027262	-2.506329	0.0185
LN_WAGES(-1)	0.042256	0.013571	3.113644	0.0043
D(LN_HP)	-0.173908	0.222552	-0.781428	0.4413
D(LN_HP(-1))	-0.400043	0.252408	-1.584907	0.1246
D(LN_RPI)	-0.677331	0.338915	-1.998527	0.0558
D(LN_RPI(-1))	-0.143843	0.316254	-0.454835	0.6529
D(LN_ROP)	0.002672	0.02321	0.115123	0.9092
D(LN_ROP(-1))	-0.02909	0.025117	-1.158169	0.2569
D(LN_STOCK)	-0.02634	0.021946	-1.200225	0.2405
D(LN_STOCK(-1))	0.024412	0.017526	1.392908	0.175
D(LN_WAGES)	0.007251	0.012137	0.597457	0.5552
D(LN_WAGES(-1))	-0.020896	0.009148	-2.284346	0.0304

R-squared	0.709219	Mean dependent var	0.022058
Adjusted R-squared	0.536904	S.D. dependent var	0.039244
S.E. of regression	0.026706	Akaike info criterion	-4.123457
Sum squared resid	0.019257	Schwarz criterion	-3.434111
Log likelihood	107.7161	Hannan-Quinn criter.	-3.867814
F-statistic	4.11583	Durbin-Watson stat	0.761042
Prob(F-statistic)	0.000608		

The null hypothesis is that the residuals are serially uncorrelated, the Obs*R-squared value of 0.535463 and probability value of 0.7651 is higher in all significance levels, which strongly indicates the absence of serial correlation in the residuals. That is, the result validates the lag length used in the re-parameterised model and then we can proceed to testing the existence of the long run relationship (cointegration between the regressors in the model.

The Wald Test or F-Test investigates joint significance of the coefficients of lagged variables and is used for examining the presence of long run relationship between the variables. This is represented by the null hypothesis of no cointegration and alternative hypothesis of cointegration between the variables. This is denoted as:

H_0: $\beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = 0$ ………… No cointegration

$H_{a:} \beta_1 \neq \beta_2 \neq \beta_3 \neq \beta_4 \neq \beta_5 \neq 0$ ………… Cointegration

The F statistics is then compared to the upper value of the critical value in the Wald test to confirm the presence of cointegration in the variables. Thus, if the F-statistic is above the critical value, we assume that there is at least a long-run relationship between the factors that determinant the rise of household debt in the United Kingdom.

In contrast, if the F-statistics lies below the critical value then the notion of a long run co-integrating relationship between the variables breaks down. It is inconclusive if the F-statistics lies between the upper and lower critical values. The F-statistics tests the joint null hypothesis that the coefficients of the lagged level variables are zero otherwise referred to as no long run relationship exists between the predictors.

From the results presented below in Table 7.10, the result indicate that the log of household debt variable employed as the dependent variable (normalised) in the ARDL regression model. The calculated statistics for all models exceed the upper critical bounds at the 5% level of significance. This confirms that the null hypothesis of no co-integration can be rejected and a long run relationship between the variables exist in these models.

Table 7.10: Wald Test F-statistics for testing the existence of long- run relationship

Test Statistic	Value	df	Probability
F-statistic	4.567343	(5, 32)	0.0030
Chi-square	22.83672	5	0.0004

Null Hypothesis: C(3) =C(4)=C(5)=C(6)=C(7)=0

The F-statistic value of 4.567343 is tested against the critical value bounds provided under the unrestricted intercept and trend from Tables C1.iv in Pesaran et al (2001); it showed that the computed Wald or F- statistics is higher than both the lower bound and higher bound figures all the significance levels. Comparing the F-statistics of 4.567343 with the Pesaran et al (2001) provided in Narayan (2001); the critical value in the sample size is relatively small.

This indicates that we reject the null hypothesis that there is no equilibrating relationship among the variables and conclude that there is evidence to support a long run relationship between the variables in the model. The calculated F-statistics is higher than the I(0) lower bound and I(1) upper bound; it is statistically significant at the 5% and 10% level as shown in the Table 7.11 below.

Table 7.11: F-statistics for testing the existence of long-run cointegration

Model		F-Statistics
Model 1:Ln_Cred = f(Ln_HP, Ln_ROP, Ln_RPI, Ln_Stock, Ln_Wages)		**4.567343****
Pesaran et al. (2001)	**k=5, n=45**	
Critical Value	**Lower bound**	**Upper bound**
1	4.030	5.598
5%	2.922	4.268
10%	2.458	3.647

Notes: *, **, and *** denote significant at 10%, 5%, and 1% levels, respectively. Critical value are obtained from Narayan (2005) (Table Case III: Unrestricted intercept and no trend; pg. 1988).

Essentially, the Ramsey RESET test was employed in the model to test for the null hypothesis of misspecification and the result presented under Table 7.12 failed to reject the null hypothesis thereby concluding that the appropriate functional form was employed in the model. One can conclude that, all things being equal, the elasticity of percentage change in household debt is accounted for by the percentage changes in the regressors.

Table 7.12: Ramsey's RESET Test

Specification: D(LN_CRED) C D(LN_CRED(-1)) LN_HP(-1) LN_RPI(-1) LN_ROP(-1) LN_STOCK(-1) LN_WAGES(-1) D(LN_HP) D(LN_RPI) D(LN_ROP) D(LN_STOCK) D(LN_WAGES)

	Value	df	Probability
t-statistic	0.506065	31	0.6164
F-statistic	0.256102	(1, 31)	0.6164
Likelihood ratio	0.362006	1	0.5474

Thus, household debt depends positively on the growth of financial development evidenced by stock market capitalisation as a percentage of the GDP and the influences of retail price inflation but negatively on wages and the declining rate of profit.

The signs and magnitude of the coefficients are relatively consistent with the economic theory highlighted in previous chapters. This implies that as wages falls and the rate of profit declines, the demand for household debt rises to meet the financial obligations of these households in advanced capitalist economies like the United Kingdom.

According to Pesaran et al. (ibid), testing the coefficients among the lagged variables are jointly related and lie below the upper bound critical value and lower bound critical values, indicates the existence of a long run cointegration relationship among the variables. The ADRL approach to cointegration and estimation of the growth of household debt is represented by:

$$CRED_t = \beta_{1t} + \beta_{2t} + \beta_{3t} + \beta_{4t} + \beta_{5t} + e_t$$

Where $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ are calculated and the various elasticities in the long run presented individually as below:

i. Elasticity of HP = $\sum_{i=0}^{q} \beta lnHP / 1 - \sum_{i=0}^{p} \beta lnCRED$

$$= \frac{\text{Sum of the independent coefficient(s) of HP}}{\text{1 - Sum of the dependent coefficient}}$$

HP shows elasticity of -0.887049, standard error 0.484000 and t-statistics of -1.832747. The p-value of F-statistics serves as the long run elasticity of HP and is statistically significant at 10% significant level. This result supports the literature and empirical analysis presented in Kohn and Dynan (2007); Stockhammer and Wildauer, (2017) and Meng et al. (2013) on the long run determinants of rise of household debt. It also confirms the hypothesis earlier highlighted in chapter 1, and further reiterated in chapter 5, that on average the increases in housing price has a direct impact on the level of debt that households incur as they augment their wages.

ii. Elasticity of RPI = $\sum_{i=0}^{q1} \beta lnRPI / 1 - \sum_{i=0}^{p} \beta lnCRED$

$$= \frac{\text{Sum of the independent coefficient(s) of RPI}}{\text{1 - Sum of the dependent coefficient}}$$

The elasticity of RPI shows -0.43364 with standard error of 0.490794 and t-statistics of -0.883553. The p-value of F-statistics serves as the long run elasticity of RPI and statistically significant at 5% significant level to determine the long run rise of household debt in the United Kingdom. This result supports the literature earlier highlighted in chapter 2.

iii. Elasticity of ROP = $\sum_{i=0}^{q2} \quad \beta lnROP/$ 1 - $\sum_{i=0}^{p} \quad \beta lnCRED$

$$= \frac{\text{Sum of the independent coefficient(s) of ROP}}{\text{1 - Sum of the dependent coefficient}}$$

The elasticity of ROP shows 0.052322 with standard error of 0.058447 and t-statistics of 0.895197. The p-value of F-statistics serves as the long run elasticity of ROP and statistically significant at 5% significant level to determine the long run rise of household debt in the United Kingdom.

This result provides evidence that there has been a shift from real sector productivity to speculation on household wages in order to sustain the declining profitability levels (due to increased competition) has shifted to speculation in household wages. This has seen the increased dominance of financial markets and motives at the expense of real sector manufacturing that aids profitability economic growth.

The result corroborates Marx (1981) theory on the tendency of the rate of profit to fall as a result of the various countertendencies that ails average rate of profit. This result supports the literature presented in chapter 2 as household debt has been shown to be one of these counter-tendencies.

iv. Elasticity of STOCK = $\sum_{i=0}^{q3} \quad \beta lnStock/$ 1 - $\sum_{i=0}^{p} \quad \beta lnCRED$

$$= \frac{\text{Sum of the independent coefficient(s) of Stock}}{\text{1 - Sum of the dependent coefficient}}$$

The elasticity of stock shows -0.037266, with standard error of 0.070624 and t-statistics of -0.527664. The p-value of F-statistics serves as the long run elasticity of stock market as a proportion of GDP and is statistically significant at 10% significant level in determining the long run rise of household debt in the United Kingdom.

The results also showed that a one unit rise in the STOCK (stock market capitalisation as a percentage of GDP) induces a 0.03727 increase rise in household debt. That is, finance hegemony instigated the rise of household debt through the provision of easy access to credit markets in advanced capitalist economies. This supports other studies such as Lapavitsas and Powell (2013) and Aalbers, (2016); Wijburg and Aalbers, (2017a) on the role of finance in an economy.

v. Elasticity of wages = $\sum_{i=0}^{q4} \quad \beta lnWages / 1 - \sum_{i=0}^{p} \quad \beta lnCRED$

= <u>Sum of the independent coefficient(s) of Wages</u>

1 - Sum of the dependent coefficient

The elasticity of wages shows 0.049846 with standard error of 0.030882 and t-statistics of 1.614096. The p-value of F-statistics serves as the long run elasticity of wages and is statistically significant at 10% significant level to determine the long run rise of household debt in the United Kingdom.

In the main, the long run model highlighting the relationship between the rise of household debt and its regressors: house prices, retail price index, rate of profit, stock market as a percentage of GDP and wages is highlighted below:

$$\boldsymbol{CRED_t = -0.887049HP_t + 0.052322ROP_t + -0.43364RPI_t + -0.03727Stock_t + 0.049846Wages_t + \mu_t}$$

Thus, the final analysis involves estimating the short run error correction model (ECM) from the previous regression residuals and extracting the error correction model. The error correction model associated with the above long run relationship between household debt and the regressors is thus presented below:

Dependent Variable: D(LN_CRED)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.002706	0.007518	0.359972	0.721
D(LN_CRED(-1))	0.709418	0.1095	6.478718	0.0000
D(LN_HP(-1))	-0.029481	0.164796	-0.178895	0.859
D(LN_ROP(-1))	0.008116	0.018438	0.440193	0.6624
D(LN_RPI(-1))	0.065634	0.194333	0.337742	0.7375
D(LN_STOCK(-1))	0.00588	0.014553	0.404049	0.6886
D(LN_WAGES(-1))	0.000969	0.007007	0.138262	0.8908
ECT(-1)	-0.709405	0.038971	-2.3109	0.0267

R-squared	0.64172	Mean dependent var	0.022058
Adjusted R-squared	0.572054	S.D. dependent var	0.039244
S.E. of regression	0.025673	Akaike info criterion	-4.323803
Sum squared resid	0.023727	Schwarz criterion	-3.999405
Log likelihood	103.1237	Hannan-Quinn criter.	-4.203501
F-statistic	9.211423	Durbin-Watson stat	1.749403
Prob(F-statistic)	0.000002		

The error-correction term (*ECT*) provides further evidence on the long-run cointegration relationship that exist between the rise of household debt and the independent variables used in this model. To extract the speed of adjustment in the model, the error correction term is denoted by the ECT (-1) in the above regression result and interpreted as coefficient of -0.709418 (0.0267). This is a robust and highly significant result, falling in line with the economic theory presented in the thesis.

This suggests that 70.94% of any disequilibrium between the rise of household debt and the regressors are corrected and absorbed within one period (a year). Thus, the thesis concludes that 70.94 percentage changes in the rise of household debt is accounted for by percentage changes in the regressors.

The existence of a negative coefficient of the error term and a highly statistically significant probability value signifies that the stable long-term relationship between household debt and the regressors follow similar studies done by Banerjee et al. (1998).

7.4.6 Parameter Stability Test in Model

Cointegration among variables in an econometric framework rests on the assumption that the model is stable, so long as all other tests have been performed and the variables overcome all restrictions in the model.

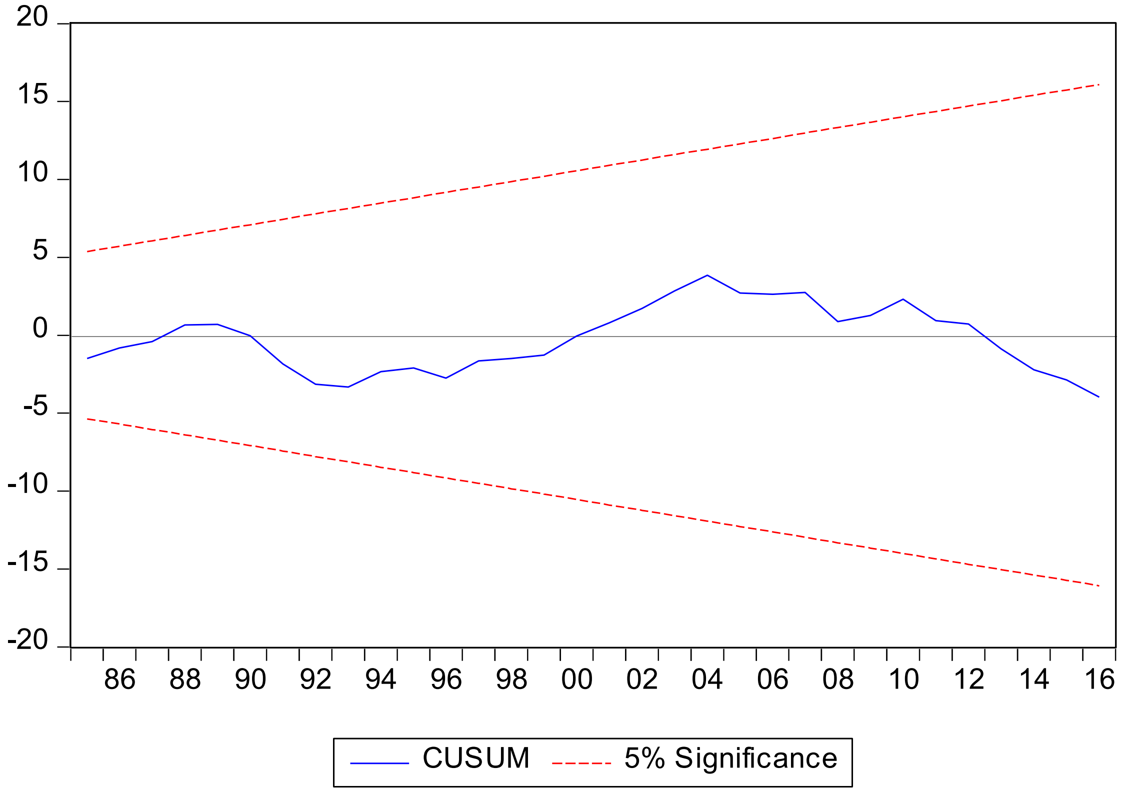
Pesaran and Pesaran (1997) argue that testing for long run stability in the parameters revolves around the application of the cumulative sum of recursive residuals (CUSUM) and the cumulative sum of recursive residuals of square (CUSUMSQ) tests on the residuals of the estimated error correction model.

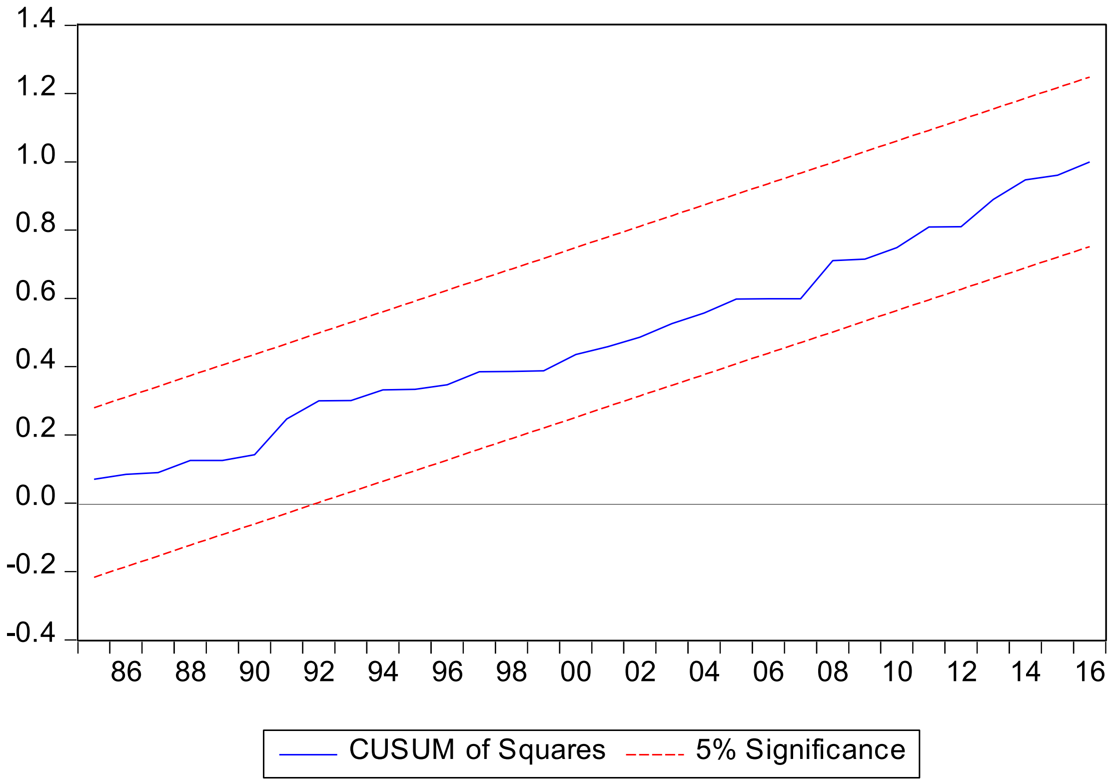
These tests proposed by Brown et. al (1975) ensures that the breakpoint period need not be established; or specified so long as all the coefficients are stable even though there is no related null hypothesis tests that all the coefficients are stable and does not require the specification of a priori knowledge about the date of the structural break.

The CUSUM test employs the cumulative sum of recursive residuals as a function of the first observation and recursively updated and plotted against any specified trend. On the other hand, the CUSUMSQ employs the squared recursive residuals and again engages the same process as the CUSUM.

The null hypothesis states that all coefficients are stable at the critical bounds 5% level so long as the plots of the variables stay within the critical bounds. The below figure confirms the rejection of the null hypothesis as the parallel lines are stable at the 5 % level of significance. Thus, the coefficients confirm that the model is stable and does not suffer from any structural instability over the period of study in the United Kingdom. Figures 7.5a and &.7.5b shows the ARDL stability of the ARDL parameters within the 5% significance level.

Figure 7.5 CUSUM Stability Tests





7.5 Conclusion

The chapter investigated the relationship between the unsustainable growth of household debt in the era of financial liberalisation in the United Kingdom by using a variety of time series techniques and methods. The empirical evidence confirm that household debt is due to the decline in the rate of profitability and household wages that has seen financial institutions shift from financing the real sector to speculation on household income in the United Kingdom.

The financialisation of households in an era of stagnant wages and the decline in profit levels of banking institutions has led to these institutions expropriating financial claims on household income via the supply of credit facilities in the United Kingdom. Thus, as these households get ingrained into the financial sector via the expansion of financial system, they become stuck in an ever-increasing bubble of debt to meet their daily financial obligations.

The empirical result presented in this section reveal the factors that have instigated and sustained the increasing level of household since the collapse of the Bretton Woods System till date in the United Kingdom.

Thus, the study concluded that the continued increase in household debt was due to the end of Fordist high wages, declining rate of profit and the increasing integration of households into the formal financial system. To this end, the twin forces of neoliberalism and deregulation of the financial system facilitated the easy integration of these households into the financial markets.

Additionally, the empirical findings in the study reiterate the expansion of the financial system through the processes of financialisation of household income and the destabilising effect on the economy. Other studies such as Mian and Sufi (2016) also confirm and reiterate the contributions of unsustainable levels of household debt to advanced capitalist economies such as the United Kingdom.

Moreover, the analysis provides econometric evidence for the rise of household debt from a historical and contemporary perspective as a function of the underlying factors that has led to the unequal relationship between capital and labour in the United Kingdom. The study shows the continued ascendancy of the financial sector at the detriment of the working class in the first instance and the declining productivity in the real sector.

The econometric analysis show that the increased financialisation of household as proxied by stock market capitalisation as a percentage of GDP has a positive relationship with household debt in the first instance and a negative relationship with wages. That is, the argument, that household increased access to credit markets, stimulate wealth and economic growth. This is supported by the findings of Mian and Sufi (2016) in their study of the macroeconomic drivers of household debt in several economies.

Furthermore, the analysis support arguments that an increase in house price fuel volatilities in the housing market as households increase their debt levels in order to meet their financial obligations. The study provides evidence to the positive correlation between house price and debt levels in the United Kingdom.

The empirical analysis show that an increase in the macroeconomic variables of interest rates and inflation rate are negative shocks to households and impinged upon the capital accumulation process and income levels in the United Kingdom. Additionally, the study shows that the declines in government expenditure has also led to the unsustainable growth of household debt in an era of financial hegemony in the United Kingdom.

Lastly, the econometric results provide weak evidence to the long-run sustainability of household debt to contribute significantly to economic growth and the notion that increased supply of credit facilities to household is essential to the growth of the economy. The evidence runs contrary to the argument that the neoliberal policies of deregulation and financial liberalisation increases wealth in an economy.

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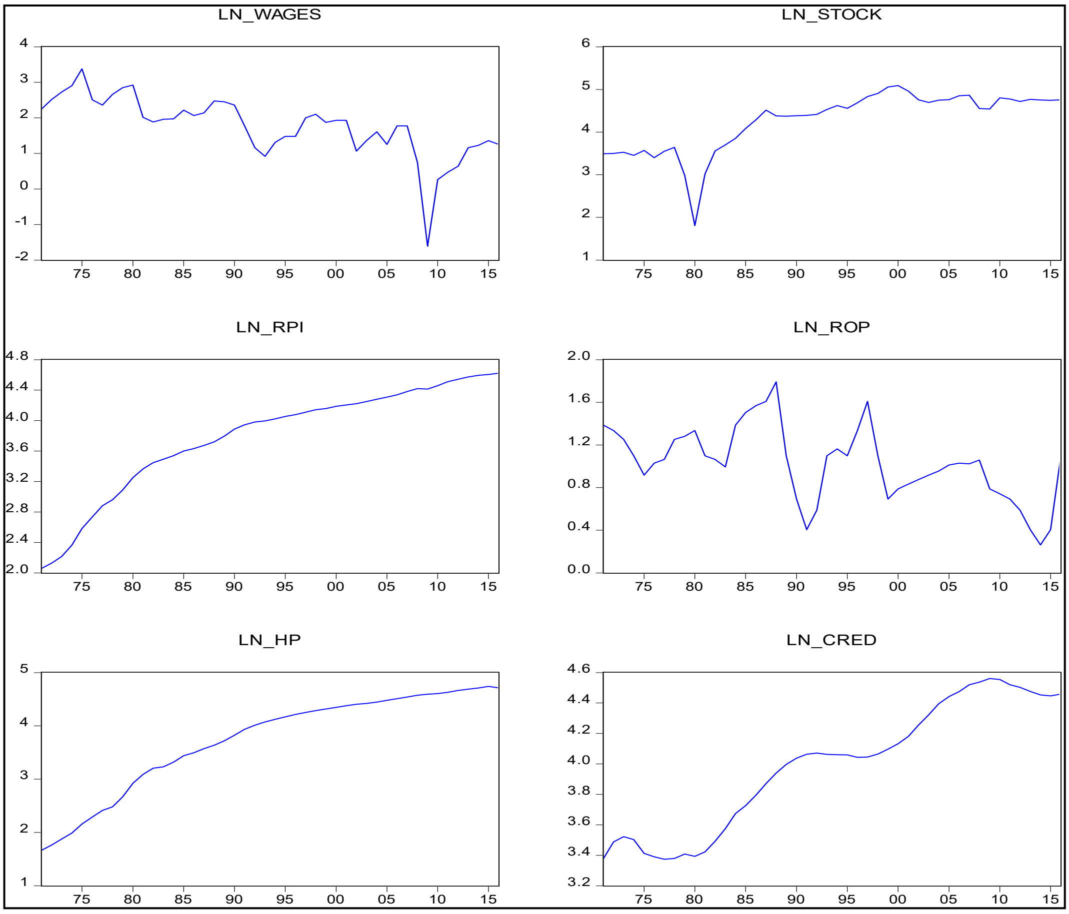
APPENDICES

Appendix – I: Descriptive Analysis

	LN_CRED	LN_HP	LN_ROP	LN_RPI	LN_STOCK	LN_WAGES
Mean	3.990751	3.729849	1.028775	3.778815	4.265648	1.759817
Median	4.060012	4.096956	1.061251	4.008734	4.537032	1.909296
Maximum	4.561218	4.738666	1.791759	4.622425	5.092338	3.380995
Minimum	3.373312	1.665358	0.262364	2.059829	1.809927	-1.609438
Std. Dev.	0.414441	0.931711	0.343255	0.717373	0.68953	0.85823
Skewness	-0.187449	-0.846493	-0.114424	-0.965179	-1.313638	-1.264315
Kurtosis	1.653642	2.45045	2.778847	2.948994	4.710685	6.514808
Jarque-Bera	3.743687	6.072391	0.194121	7.147025	18.83895	35.93338
Probability	0.15384	0.048017	0.907501	0.028057	0.000081	0.00000
Sum	183.5746	171.5731	47.32367	173.8255	196.2198	80.95157
Sum Sq. Dev.	7.72925	39.06385	5.302065	23.15807	21.3953	33.14514
Observations	46	46	46	46	46	46

Appendix – II: Visual Representation of Unit-Root Tests



Appendix – III: Unrestricted ARDL Error Correction Model

Dependent Variable: D(LN_CRED)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.140266	0.208684	0.672144	0.5072
LN_CRED(-1)	0.011131	0.048178	0.231042	0.819
LN_HP(-1)	-0.010243	0.088592	-0.115624	0.9088
LN_RPI(-1)	0.035029	0.100057	0.350094	0.729
LN_ROP(-1)	0.044906	0.020545	2.185701	0.0377
LN_STOCK(-1)	-0.068328	0.027262	-2.506329	0.0185
LN_WAGES(-1)	0.042256	0.013571	3.113644	0.0043
D(LN_HP)	-0.173908	0.222552	-0.781428	0.4413
D(LN_HP(-1))	-0.400043	0.252408	-1.584907	0.1246
D(LN_RPI)	-0.677331	0.338915	-1.998527	0.0558
D(LN_RPI(-1))	-0.143843	0.316254	-0.454835	0.6529
D(LN_ROP)	0.002672	0.02321	0.115123	0.9092
D(LN_ROP(-1))	-0.02909	0.025117	-1.158169	0.2569
D(LN_STOCK)	-0.02634	0.021946	-1.200225	0.2405
D(LN_STOCK(-1))	0.024412	0.017526	1.392908	0.175
D(LN_WAGES)	0.007251	0.012137	0.597457	0.5552
D(LN_WAGES(-1))	-0.020896	0.009148	-2.284346	0.0304

R-squared	0.709219	Mean dependent var	0.022058
Adjusted R-squared	0.536904	S.D. dependent var	0.039244
S.E. of regression	0.026706	Akaike info criterion	-4.123457
Sum squared resid	0.019257	Schwarz criterion	-3.434111
Log likelihood	107.7161	Hannan-Quinn criter.	-3.867814
F-statistic	4.11583	Durbin-Watson stat	0.761042
Prob(F-statistic)	0.000608		

Appendix – IV: Wald F-statistics Test

Test Statistic	Value	df	Probability
F-statistic	4.567343	(5, 32)	0.0030
Chi-square	22.83672	5	0.0004

Null Hypothesis: C(3) =C(4)=C(5)=C(6)=C(7)=0

Appendix – V: Ramsey's RESET Test

Specification: D(LN_CRED) C D(LN_CRED(-1)) LN_HP(-1) LN_RPI(-1) LN_ROP(-1) LN_STOCK(-1) LN_WAGES(-1) D(LN_HP) D(LN_RPI) D(LN_ROP) D(LN_STOCK) D(LN_WAGES)

	Value	df	Probability
t-statistic	0.506065	31	0.6164
F-statistic	0.256102	(1, 31)	0.6164
Likelihood ratio	0.362006	1	0.5474

Appendix – VI: Error Correction Model Test

Dependent Variable: D(LN_CRED)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.002706	0.007518	0.359972	0.721
D(LN_CRED(-1))	0.709418	0.1095	6.478718	0.0000
D(LN_HP(-1))	-0.029481	0.164796	-0.178895	0.859
D(LN_ROP(-1))	0.008116	0.018438	0.440193	0.6624
D(LN_RPI(-1))	0.065634	0.194333	0.337742	0.7375
D(LN_STOCK(-1))	0.00588	0.014553	0.404049	0.6886
D(LN_WAGES(-1))	0.000969	0.007007	0.138262	0.8908
ECT(-1)	-0.709405	0.038971	-2.3109	0.0267

R-squared	0.64172	Mean dependent var	0.022058
Adjusted R-squared	0.572054	S.D. dependent var	0.039244
S.E. of regression	0.025673	Akaike info criterion	-4.323803
Sum squared resid	0.023727	Schwarz criterion	-3.999405
Log likelihood	103.1237	Hannan-Quinn criter.	-4.203501
F-statistic	9.211423	Durbin-Watson stat	1.749403
Prob(F-statistic)	0.000002		

Appendix – VI: Error Correction Model Test

Dependent Variable: D(LN_CRED)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.002706	0.007518	0.359972	0.721
D(LN_CRED(-1))	0.709418	0.1095	6.478718	0.0000
D(LN_HP(-1))	-0.029481	0.164796	-0.178895	0.859
D(LN_ROP(-1))	0.008116	0.018438	0.440193	0.6624
D(LN_RPI(-1))	0.065634	0.194333	0.337742	0.7375
D(LN_STOCK(-1))	0.00588	0.014553	0.404049	0.6886
D(LN_WAGES(-1))	0.000969	0.007007	0.138262	0.8908
ECT(-1)	-0.709405	0.038971	-2.3109	0.0267

R-squared	0.64172	Mean dependent var	0.022058
Adjusted R-squared	0.572054	S.D. dependent var	0.039244
S.E. of regression	0.025673	Akaike info criterion	-4.323803
Sum squared resid	0.023727	Schwarz criterion	-3.999405
Log likelihood	103.1237	Hannan-Quinn criter.	-4.203501
F-statistic	9.211423	Durbin-Watson stat	1.749403
Prob(F-statistic)	0.000002		

Appendix – VII: Parameter Stability Test